

AA plc

Registered number: 05149111

Annual Report and Financial Statements 2015

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COMPANIES HOUSE

The strength of the AA is inextricably linked with **our brand**, and its foundations in our **110 year-old, market-leading roadside assistance** service in the UK.

We offer a variety of products and services within our **Roadside Assistance**, **Insurance Services** and **Driving Services** divisions in the UK and we have a business in **Ireland**, which replicates most of the operations and activities of the UK.

The AA investment case

An attractive business

- › Most trusted commercial brand The AA has one of the most widely recognised consumer brands in the UK and was confirmed as the UK's most trusted commercial brand by Y&R Brand Asset Valuator survey in 2014.
- › Market leadership We are by far the largest Roadside Assistance provider with more than 40% share. We also have strong market positions across our product range.
- › Mature and concentrated market The AA and its key competitors together account for approximately 80% of the Roadside Assistance market.
- › High barriers to entry Our vehicle deployment system, people and scale combined with the high start-up costs required to operate an efficient national roadside service pose significant barriers to entry.
- › High recurring revenue Our personal members are loyal with stable retention rates and average tenure of 12 years.
- › High cash generation The majority of our customers pay for our services in advance so that virtually all of our accounting profits convert to cash during the year.
- › Experienced and skilled workforce Our selection process and continual training for our excellent workforce lead to long service and high repair rates in Roadside Assistance.

The strategy

- | | | | | | |
|---|---|--|---|---|---|
| 1. Strengthen
the AA as the
pre-eminent motoring
services organisation
in the UK | ➤ | 2. Reduce
Group borrowings
and the associated
interest costs | ➤ | 3. Revolutionise
customer experience
through investing in
and embracing new
technologies | ➤ |
|---|---|--|---|---|---|

Forward-looking statements This Annual Report contains certain forward-looking statements with respect to the operations, strategy, performance, financial condition, and growth opportunities of the Group. By their nature, these statements involve uncertainty and are based on assumptions and involve risks, uncertainties and other factors that could cause actual results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and, other than in accordance with its legal and regulatory obligations, the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report should be construed as a profit forecast.

Highlights of the year

Financial highlights

Revenue

£983.5m

Adjusted basic EPS

23.3p

Trading EBITDA

£430.1m

Basic EPS

13.3p

Cash conversion

100%

Interest cover

2.0x

Net debt

£3.0bn

Strategic highlights

- › IPO with strong shareholder register
- › Inclusion on London Stock Exchange's Premium List
- › Appointed a majority of Non-Executive Directors including John Leach as Senior Independent Director
- › Appointment of Martin Clarke as CFO to work alongside Bob Mackenzie, Executive Chairman
- › Paid down £175m of the PIK notes

[+ Read more on p8 >](#)

Operational highlights

- › An average of approximately 10,000 Roadside Assistance rescues per day
- › Won the VW contract for Roadside Assistance to customers buying its new cars
- › Renewed the contract with Lloyds Banking Group and TSB Bank to provide Roadside Assistance for their customers
- › More than two million insurance policies in place in the UK
- › Stabilised Motor insurance, stemming long term decline

[+ Read more on p26 >](#)

The following definitions apply throughout the report:

Trading EBITDA (earnings before interest, tax, depreciation and amortisation) excludes exceptional items, share-based payments, acquisition earn-out costs and items not allocated to a segment. In the current period items not allocated to a segment principally relate to the difference between the cash contributions to the pension schemes for on-going service and the calculated annual service cost.

Adjusted basic EPS (earnings per share) adjusts for a number of one-offs of which the largest are exceptional items and the amortisation of debt issue fees. This is covered more fully in note 9 to the accounts.

Cash conversion is net cash inflow from operating activities before tax and exceptional items divided by Trading EBITDA.

Interest cover is Trading EBITDA divided by cash finance costs, excluding any early repayment fees.

Net debt includes the principal amounts of the Group's borrowings less cash and cash equivalents.

Strategic Report

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[+ Learn more at www.theaa.com/ar2015](http://www.theaa.com/ar2015)

The AA at a glance

Our business at a glance

Overview

We operate three divisions: **Roadside Assistance, Insurance Services and Driving Services**. We also operate in **Ireland** providing Roadside Assistance and Insurance Services. Here we give you an overview of these businesses.

Roadside Assistance

Revenue	Personal Members	Business Customers
£728.1m	3.8m	9.6m
Trading EBITDA	Number of patrols	Breakdowns attended
£358.9m	3,081	3.5m

The AA is the UK's leading provider of roadside assistance, with approximately 3,000 patrols attending an average of around 10,000 breakdowns by cars, motorbikes, caravans and vans every day.

They deal with a multitude of malfunctions at the roadside, successfully repairing approximately 80% of breakdowns in the last 12 months. When a Member's vehicle cannot be repaired at the roadside, our dedicated fleet of towing vehicles enables us to reduce the time a Member spends at the roadside, which provides us with a major differentiator versus our competitors. Another differentiator is that our patrols attend approximately 90% of breakdowns, a higher percentage than our competitors. The remainder are served by third-party garages that provide flexibility during periods of peak demand.

During the year, our patrols responded to 3.5 million breakdowns, of which approximately 17% – the most frequent – were caused by battery faults and a further 15% related to tyres. Overall however, 31% of breakdowns arose from errors on the part of drivers, for example, using the wrong fuel or lost keys.

Personal Members buy their AA cover directly through our sales channels. We have 3.8 million Personal Members for whom we provide Recovery, Home or Replacement Vehicle, Transfer or Accommodation services.

Business Customers receive AA roadside assistance cover indirectly, as a complementary service in addition to the products they purchase from our partners. These partners include car manufacturers, of which the AA has a 67% market share. During the year we won contracts with VWG, Hyundai and Porsche, as well as retaining our contracts with Ford and Jaguar Land Rover. We also renewed our contract with Lloyds Banking Group and TSB Bank to provide roadside assistance to their customers. Other business partners include fleet and vehicle leasing companies.

A year of achievements



2014 February
Severe weather teams deployed to areas affected by the worst tidal surges in 60 years

March
Lloyds Banking Group, the AA's largest customer, renewed its contract for five years

March
The AA launched the Think Bike campaign with Chris Boardman and John McGuinness

June
Launched the Volkswagen Group assistance contract

June
The AA listed on the London Stock Exchange and 58% of eligible employees joined the AA Employee Share Incentive Plan

Insurance Services

Revenue	Policies
£142.4m	2.2m

Trading EBITDA	Income per policy
£83.9m	£66

The AA offers Motor, Home, Home Emergency Response, Travel and other specialist insurance policies. We act as broker for the insurer, operating a diverse panel of third-party underwriters, including many of the UK's major insurance underwriters.

Motor Insurance contributes the majority of our insurance business revenue. We offer a range of packages from comprehensive cover to third-party fire and theft. Optional extras such as legal assistance, excess protection and car hire, are also available.

Home Insurance is the second largest contributor of insurance revenue. We offer AA buildings and contents insurance and customers can also purchase a number of additional products, the most significant of which is Home Emergency Response.

Our **Financial Services** business offers a variety of products including savings, loans and credit cards.

Driving Services

Revenue	DriveTech Police contracts
£73.7m	11

Trading EBITDA	Driving instructors
£20.4m	2,670

The Driving Services segment comprises our driving schools and AA DriveTech business.

The **AA Driving School** and the **British School of Motoring** make the AA market leader in driving schools, with a combined share of pupils estimated at approximately 11%. They are taught by 2,670 franchised instructors who receive a car and branding support in return for a fee.

AA DriveTech is one of two market leaders providing driver education, including **DriverAware** courses which are offered by Police forces. We currently have contracts with 11 of the 45 Police forces in the UK, including our largest such contract, with Thames Valley Police, which we renewed in January 2014 for a further three years.

Ireland

Revenue	Personal Members
£38.7m	119,000

Trading EBITDA	Insurance policies
£14.8m	178,000

Our three main products in Ireland broadly mirror those in the UK.

Road Membership, which provides 24 hour a day roadside assistance for vehicles, represents the largest source of income in Ireland. We have 119,000 Personal Members and 165,000 indirect Business Customers whose cover is provided as a complementary service by our business partners. We are the only branded provider of roadside assistance in Ireland.

In Ireland, **AA Motor Insurance** offers insurance policies underwritten by a panel of underwriters and **AA Home Insurance** offers AA-branded home insurance policies underwritten by a third-party insurer.



August
Jim Haggart, our longest-serving patrol man retired after 48 years with the AA and rescuing more than 86,000 motorists

October
The AA introduces windscreen stickers to replace car tax discs

November
The appointment of our CFO, Martin Clarke, and Senior Independent Director (SID), John Leach

December
Paid down £175m or 50% of the PIK

2015 January
The AA was transferred to the LSE's Premium List

Our marketplace

Roadside assistance market

The majority of roadside assistance services in the UK, including the AA, are provided through the business-to-consumer (Personal Members) and the business-to-business channels (Business Customers).

Personal Members subscribe for roadside assistance cover directly through a membership agreement with a roadside assistance provider. Business customers receive roadside assistance cover indirectly, as a complementary service to the products they purchase from another business.

Market share

The roadside assistance market is characterised by a small number of large providers and we are the clear market leader, with over 40% of the market. The AA has 67% of the car manufacturers' market, providing the roadside assistance services which are offered by manufacturers for purchasers of new vehicles.

The branded patrol network

The AA operates a nationwide branded patrol network, typically restricting use of third-party garage networks to peak times and remote areas. The customer experiences direct interaction with roadside assistance patrols, who act as the "face of the brand". This reinforces familiarity with the brand and its values, based on quality and speed of service, responsiveness and reliability.

Services

Personal Membership policies cover vehicles or individuals. Vehicle policies cover either single or multiple vehicles; personal policies cover one or more individuals, including families, regardless of the vehicle they are driving. Entry-level roadside services typically include roadside assistance for repair or towing broken-down vehicles to a local garage if roadside repair is not possible. This service can be complemented by additional services such as:

- › Recovery Service providing transport for broken-down vehicles to a destination of the member's choice.
- › Home Service providing members with repair services while vehicles are either parked at or within a prescribed distance of their home.
- › Replacement Vehicle, Transfer or Accommodation services help Members who would otherwise be stranded with temporary vehicles, transfer to their destination, or overnight accommodation.

Business Customers' cover is provided by car manufacturers and fleet & leasing companies and includes pay-for-use and subscription services.

Competition

Competition which is based on quality and price is relatively stable and no new entrant has achieved a scale comparable to the AA's since the 1970s.

Barriers to entry are significant and include the investment required to build a trusted, nationwide brand, the creation of a nationwide, branded fleet of qualified patrols with competitive technical ability, and the sophisticated deployment process to operate effectively. The AA benefits from the clear margin of leadership it has in the market.

9 seconds
How often a driver is recovered by the AA

80%
Breakdowns repairable at the roadside

40%+
The AA's market share of the consumer roadside assistance market

3,081
patrols

Roadside Assistance – Personal Members

› Source of revenue

Personal Members subscribe for Personal Membership with the AA and revenue is driven by membership numbers, type of cover and price. Fees are generated principally for breakdown cover but additional revenue is available from selling other services (cross-selling) or higher-value products and services (up-selling). The AA offers such services as roadside assistance cover in Continental Europe and insurance products.

› Channels

Personal Members can be acquired through a number of channels. The majority of initial contacts are made directly through the internet or telephone, typically in response to marketing. Other important channels are face-to-face sales, which include our patrols, and sales linked to Motor Insurance sales.

› Market drivers

UK volumes are driven primarily by the number of privately-owned vehicles which grew at approximately 0.7% per annum between 2007 and 2013, despite a decline in new car registrations. The number of vehicle licence holders, which also influences volumes, grew steadily from approximately 31 million in 2003 to 35 million in 2013, the last available data.

› Pricing

New Personal Members are charged non-variable fees on either an annual or monthly basis based on the level of cover that they select on joining the AA. When they renew, which is generally on the anniversary of joining the AA, a renewal notice will be issued based on the level of cover plus any additional products they selected during the year.

Roadside Assistance – Business Customers

› Source of revenue

The AA engages partners who offer roadside assistance as an add-on or complementary service to their customers. Usage of roadside assistance is typically lower for these customers because they tend to own newer, more reliable vehicles and, in some cases, they may not be fully aware of the benefits of the cover they possess.

› Channels

Business customers can be acquired through four primary channels: **Added value accounts (AVAs)** Banks provide their account holders with roadside assistance cover among other offerings.

Car manufacturers Most car manufacturers offer third-party roadside assistance cover, typically for one year, to purchasers of new or used vehicles through a franchised or approved dealer.

Fleet and leasing companies Car and commercial fleet rental companies and fleet managers engage third-party roadside assistance providers for their vehicles or for their rental customers.

Insurance Insurance companies offer third-party roadside assistance cover as part of their motor insurance offerings, either sold separately or bundled with other products.

› Market drivers

AVAs The AA has relationships with Lloyds Banking Group and TSB Bank. Lloyds Banking Group is the UK's largest provider of current accounts.

Car manufacturers Market is driven by the number of new and used vehicles sold to consumers through franchised or approved dealers. Vehicle licence numbers increased by 1.5% between 2012 and 2013.

Fleet and leasing companies The AA and our major competitor hold a significant majority of the market for fleet cover. The scale of the fleet market is aligned with the number of commercial vehicles under five years of age.

Insurance A significant proportion of the insurance market is served by roadside assistance providers owned within their groups.

› Pricing

Prices are set either per breakdown or per vehicle and are more competitive than in the Personal Member market. The economies of scale as the largest provider with lower costs lend a significant advantage.

Car manufacturers
roadside assistance
market 2014

50%+
of households in the UK
with an AA product

35m
The number of vehicle
licence holders (2013 the
most recent statistics)

Our marketplace continued

UK insurance brokers market

The AA and other insurance brokers act as the intermediary between those seeking insurance cover and insurance underwriters who offer the insurance policies providing that cover. Brokers earn commission that is added to the premium paid by policy holders and may increase customer value through the sale of ancillary products, including legal cover, accident plans, car hire, excess cover and breakdown and key cover. Brokers assume no underwriting risk, but work with one or more underwriters who quote competitively for individuals' risks.

Most insurance brokers in the UK offer a range of insurance products, including motor, home and travel insurance and the sector is led by a small number of large brokers. There is a trend for brokers to develop in-house underwriting capabilities.

Competition

The UK motor and home insurance markets experience high levels of competition from established and new competitors. As well as the number of participants, the increasingly wide availability of distribution platforms also contributes to increasing competition.

UK driving services market

The UK driving services market comprises driving schools and training for occupational drivers or those who have committed driving offences.

AA and BSM driving schools

The market is dominated by independent driving instructors but the AA has approximately 11% of the total through its two franchises, AA Driving School and British School of Motoring.

DriveTech

The AA has contracts with 11 of the 45 Police forces in the UK and, together with one other provider, accounts for approximately 45% of such contracts with most of the other Police forces providing the courses in-house.

The AA is also a market leader in driver training for fleet management organisations.

Motor insurance

> Market dynamics

In the UK, motor insurance is a non-discretionary, legal requirement and the market tracks the number of vehicles and licensed drivers. The cost of claims is expected to fall following legislation suppressing the increase in claims arising through claims management companies. The market is relatively fragmented with a large number of participants.

> Channels

Insurance brokers compete with each other and direct insurers through a range of channels, including price comparison websites (PCWs). PCWs amount to more than 50% of the market and have driven pressure on margins, but growth has now stabilised. Brokers seek to sell higher value and additional products both directly when selling and through marketing.

Home insurance

> Market dynamics

The residential property market drives the home insurance market as insurance is typically taken when purchasing a property. Home insurance providers offer a range of related products, including home emergency, maintenance and repair cover for boilers, blocked pipes and roof damage. In recent years, the performance of underwriters in this market has been less volatile than in the motor insurance market.

> Channels

Home insurance is distributed across a broad range of channels. PCWs have increased penetration but are less dominant than in motor insurance, largely because most banks and building societies link home insurance with mortgage financing, and because insurance is largely property-specific and therefore harder to compare. Premiums are lower and retention rates higher than with motor insurance.

Ireland

The AA is market leader in the Roadside Assistance market in Ireland. We differentiate ourselves through a branded network of patrols and higher service levels when compared with independent garages.

Breakdown cover is usually given away with motor insurance in Ireland and our competitors are major insurance underwriters.

The motor and home insurance markets in Ireland are less fragmented than in the UK and do not include aggregators and claims handling companies. However, significant competition arises from direct insurers and large insurance brokers which benefit from high levels of marketing. AA Ireland has a number of panel arrangements across its Home, Motor and Travel businesses.

Our business model

The AA's business model shows how we generate value for our shareholders by providing our Members and Customers with a range of services which are linked by our highly recognised and trusted brand. The AA brand has been built over 110 years on the principles of reliability, service and value, and is ever more relevant to our Members and Customers today.

We have extended the AA's reach into insurance and a wide range of driving services. On entering a new era of public ownership and transformation in the business, we will build on our brand and all that is best in the AA.

› The AA's trusted brands

Rescuing motorists has been at the heart of our brand for 110 years. We come to the rescue of motorists who have broken down at the side of the road through our nationwide, branded patrol force. We have been doing this since 1905 and have moved with the times so that we now have a highly sophisticated and efficient deployment system for our 3,000 patrols.

Reliability and limiting waiting time, even in remote areas and during surges in demand, is at the core of all that we do. We supplement our own patrols with our strong network of local garages.

Our brand is built on consistent and individual service. The combination of reliability when the need is great, and the visibility of our branded patrol vehicles that provide this assistance, are the foundation of our recognition rates of more than 91% as the UK's most trusted commercial brand.

› Membership at the heart of the AA customer experience

Our relationship with our customers is based on the value of membership. We provide our services to our Members, who buy their cover directly and can therefore choose what level of protection they require. We also provide cover to Business Customers who select the level of cover on behalf of their customers.

Membership is provided on an insured basis. We make no additional charges if the Member is covered by their premium paid up front or by instalments. Business Customers choose whether to pay a fee per breakdown or an annual fee similar to the membership premium.

Pricing for existing Members and Business Customers is generally highly individual. The individual circumstances of the Member, the tenure, previous call outs and vehicle type all influence pricing. Prices for new Members are based on market dynamics and are published on our website.

› Insurance from the pre-eminent motoring services organisation

Our time-critical reliability extends to home and motor insurance. We offer these products through price comparison websites, our own website and our UK-based contact centres.

We identify the best policy for our customer. We obtain quotes from each of the insurance companies that participate on our panels, select the most appropriate quote and offer it to our customer.

To the rescue in times of crisis. In the event of a claim we are the first point of contact for Motor insurance customers and will put them in contact with the relevant insurance company's claims department. We follow up on our Motor and Home customers after their claims have been handled to ensure satisfaction and help if necessary.

› Expanding our customer base

We extend our knowledge and brand to teach others. Our AA and BSM driving schools operate as franchises, with instructors paying a weekly fee for using our brand and a dual-control car. AA DriveTech provides driver training for experienced drivers for large fleet owners and Police forces.

We have a successful business in Ireland where we mirror the roadside assistance and insurance services offered in the UK.

Executive Chairman's statement

A remarkable year

- › Strong operating and financial performance
- › Successful IPO on 26 June 2014 and strong shareholder register
- › Inclusion in Premium List on 28 January 2015
- › Strong Board with John Leach as Senior Independent Director
- › Martin Clarke appointed as CFO

- › New management team in place
- › Pay down of £175m of the PIK notes on 19 December 2014
- › Began the transformation as set out at the time of the IPO

It is a privilege to present our first Annual Report as a public company to you, our shareholders. This has been a **remarkable year** in the history of this **remarkable Company**.

Bob Mackenzie
Executive Chairman

Robust performance demonstrating the resilience of our business

Operationally, the AA continued to deliver excellent service to our millions of customers in the UK and Ireland. Our 3,000 patrols attended some 10,000 breakdowns a day; we sold more than two million insurance policies; and our 2,670 franchised driving instructors taught people to drive. These statistics demonstrate the robust nature and scale of our business.

The strength of the AA's brand, our market leading positions across our segments and the very high level of customer retention have driven the 1.0% growth in revenue and 1.7% increase in Trading EBITDA, our main measure of profit. We demonstrated once again the power of the AA's cash generation, converting 100% of our Trading EBITDA to cash.

This performance is a tribute to the resilience and strength of the AA's business and team – that has delivered strong results during a year of such significant change. The year's financial performance is explained in detail in the Financial Review from pages 20 to 23.

- + Read more about Our performance on p24 ›
- + See our Financial review on p20 ›
- + Read John Leach's overview on Governance on p12 ›

2015 highlights

Revenue	Trading EBITDA	Basic EPS	Adjusted basic EPS	Cash conversion
+1.0%	+1.7%	13.3p	23.3p	100%
No. of Personal Members	No. of Business Customers	No. of insurance policies	No. of driving instructors	
3.8m	9.6m	2.2m	2,670	

Transition to a public company

The AA has undergone a great deal of change in ownership and, linked to that, change in management, since its formation in 1905, but nothing has been quite as significant as the change public ownership brings.

Through the IPO, Acromas, the private equity-backed company, sold its entire £1.173 billion stake in the AA to a diverse range of leading institutional investors. We embrace our new status as a public company and look forward to delivering significant value to our shareholders.

We have transformed the Board of the AA, and now have strong governance. John Leach, Senior Independent Director, provides an overview of our Governance on page 12.

John Leach, Margaret Young and Andrew Miller were appointed to the Board in the run up to the IPO and since then, we further strengthened it with the appointments of Andrew Blowers and Simon Breakwell in September. Each of the Board members offers the AA highly relevant, specific expertise and experience. Since the year end Margaret Young has resigned from the Board for personal reasons and we thank her, as one of the initial non-executives appointed at the time of the MBI and IPO, for her valuable contribution during a transformational period for the AA. We are delighted that Andrew Miller, who has recent financial and general line management experience, has agreed to take over as Chairman of the Audit Committee.

In November, we appointed Martin Clarke as CFO and, having worked closely with him through the inception of the MBI plan to the IPO, I am delighted to have his support in this role.

Our shares have performed well since the IPO with appreciation in total return to shareholders of 43% as at 31 January 2015. The details of our major shareholders can be found on page 68.

+ Read about our Trading performance on p26 >

Our strategy**A strategy to build on and enhance the key strengths of the AA**

At the time of the IPO, we established a broad outline of our strategy for the AA that built on the AA's key strengths and was fundamental to the investment case. The strengths we intend to develop and enhance to generate value for our shareholders are set out below.

- > High recurring revenues and significant cash flow generation
- > The most highly regarded and trusted commercial brand in the UK
- > Clear leadership in the stable roadside assistance market
- > High levels of retention and loyalty among our Personal Members
- > Strong market positions across our range of other products and services
- > An experienced and dedicated workforce

With such strong foundations upon which to build, we are confident that we can leverage the AA's powerful brand to underpin our position as the pre-eminent motoring organisation in the UK. This is reflected in our strategic objectives which remain as set out at the IPO as overleaf.

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Executive Chairman's statement continued

Our strategic objectives

1 Strengthen the AA as the pre-eminent motoring services organisation in the UK

The AA is dedicated to serving the needs and interests of our members and customers and to continually improve our offering. We will develop our services while maintaining the outstanding experience delivered in our roadside assistance business, our core segment. Our aims are to strengthen Member benefits to improve loyalty; work more closely with business partners as car technologies develop; and further enhance the motoring propositions we offer within the UK's consumer motoring market.

2 Reduce Group borrowings and the associated interest costs

We are highly cash generative with low maintenance capital expenditure requirements and a negligible working capital investment requirement. Continuing to improve our operating profit will help generate significant further free cash flow. This will facilitate a sustained reduction in leverage and associated interest costs as well as allowing us to pursue a progressive dividend policy. The refinancing represents significant progress in addressing this objective.

3 Revolutionise customer experience through investing in and embracing new technologies

We intend to invest in new technologies and improved customer systems to stimulate growth and enhance productivity across our business. As part of this we will invest in enhanced customer relationship management systems to allow our members to engage with us more easily. In addition, we will invest in our digital capabilities to help us provide tailored and distinctive products for them. We have a unique position as "Britain's most trusted commercial brand" and a leading position with motor manufacturers. This will provide the foundation for our investment in advanced diagnostics, using remotely gathered data to deliver emergency support. We are currently exploring a number of potential partnership opportunities in this area. We will also develop new distinctive services as the mobile connected motoring market develops.

We have commenced the involved process of designing and implementing programmes to deliver these objectives. These programmes are discussed in more detail in the strategy section of this report from pages 14 to 19.

+ Read about our Strategic Priorities on p14 >

Management appointed to deliver the strategy

In recognising that execution will be the key determinant of the success in delivering the strategy, we have appointed an experienced and ambitious management team. Janet Connor, Managing Director Insurance Services; Olly Kunc, Managing Director Roadside Operations; Mike Lloyd, Group Commercial Director; and Kirsty Ross, Membership Services Director will manage those areas in which the transformation will be most significant. The risk of the IT and overall business transformation will be managed by Mark Huggins, Business Transformation Director, and Mehboob Neky, IT Transformation Director.

The Executive Committee also includes Helen Hancock, HR Director; Deb Hearn, Claims Manager; Richard Jeffcoat, Director Business Services, Manufacturer; Edmund King, President of the AA, who manages media and PR; Jim Kirkwood, Managing Director Driving Services; Mark Millar, Company Secretary and General Counsel; Brendan Nevin, Managing Director AA Ireland; and Roger Williams, Director Business Services, Fleet. In addition, Geraint Hayter, has recently been appointed as IT Director.

The Board has confidence that this is the right team to identify risks related to the programmes of change we are undertaking, mitigate them and ensure a smooth transition.

Corporate responsibility

Responsibility is a core characteristic of the AA and is evident in the reliability of every roadside rescue or in the integrity of every sales call. These values and their embodiment in what we do drive customer loyalty and the recurring revenue which is critical to the success of our business.

Our people are the face of our brand and we engage and support them in that role, investing in talent and training. A key element of our transition is to support the frontline culture of service and expertise with a deeper focus on the customer throughout the AA.

Our activities in the AA Charitable Trust for Road Safety and the Environment are highly influential. Indeed, in recent years when there has been no advertising of our main product, the AA has been seen and heard through its campaigns on road safety and "eco-driving" (driving to reduce the environmental impact). Highly visible and successful campaigns such as Think Bikes, exhorting drivers to be more aware of cyclists and "Drive Confident", providing driving lessons for lapsed or nervous drivers, illustrate how core responsibility is to our brand. It also reinforces our position as the pre-eminent motoring organisation and as the "voice of the motorist". This "voice" is largely supported by the mandate of the AA's Populus panel, allowing us to represent more than 150,000 motorists when lobbying on motoring issues.

As we transform the AA, we will integrate the strategic purpose of corporate responsibility into our overall strategy. More information on Corporate Responsibility can be found on pages 32 to 34.

Refinancing

At the time of the IPO, one of our three strategic objectives was to reduce Group borrowings and associated interest costs. We intend to announce refinancing which will allow us to retire the most expensive elements of the debt that was inherited from the previous private equity owners of the AA.

We intend to raise £200 million of equity and issue new bonds of approximately £735 million which, combined with existing cash resources, will allow us to redeem the outstanding PIK notes, amounting to £175 million; redeem all of the existing Class B notes, amounting to £655 million; and prepay £209 million of the Senior Term Facility.

We expect the refinancing to reduce the financing costs of our debt by approximately £45 million per annum. This saving should allow us to delever more quickly in future years.

The new capital structure will improve our flexibility in supporting the development and growth of the business.

In addition, some of the restrictions that limit our scope to pay dividends will be removed and the Board intends to pay dividends with respect to the 2016 financial year.

Outlook

The current year will be one of transition and we have developed our strategy and begun making the considerable investment and operational changes which we anticipated at the time of the IPO.

We are accelerating our investment in systems to start the programme of modernisation in the back office and systems. We expect to invest £128 million over the next three years of which £82 million is planned to be invested in the 2016 financial year. We expect this investment to deliver significant savings in IT capital spend in the medium term. Taking into account these savings, the overall incremental spend is expected to be £70 million over the next five years. However, in order to continue to deliver our first-rate services without disruption, we will continue using old technology and processes while implementing the new.

Restructuring to ensure we are more competitive, commercially agile and efficient will incur one-off costs estimated at approximately £45 million over the next three years. Taking into account considerable natural attrition and reduced property costs, we expect savings of approximately £40 million per year once this programme is complete.

In addition we will increase our investment in brand marketing by approximately £10 million per annum. We are confident that these short-term investments will drive future revenue, earnings and cash generation.

Dividends

In view of the strength of the AA's business model, characterised by strong cash generation, our confidence in our transformation plans and the impact of the proposed refinancing, we expect to recommend dividends in respect of the year ending 31 January 2016. The proposed refinancing is anticipated to save the AA approximately £45 million in financing costs and to provide sufficient headroom with regard to the more restrictive covenants that have to date limited our ability to pay dividends to shareholders. As a result, while further deleveraging is planned, it is the Board's current intention to pay dividends of no less than £50 million with respect to the current year, ending 31 January 2016.

Going forward, we intend to adopt a progressive dividend policy.

Executive Chairman's statement continued

Thank you to the AA team

In order to achieve the significant change we need to deliver the best future for the AA, we are refreshing the entire organisation. We must all, at every level of the AA, embrace the new strategy and the benefits it will bring our customers, our people and our shareholders. The goal to which we all commit is a stronger AA.

I thank the AA team for all you have done this past year to deliver these strong results and for your positive response to this new phase in the life of the AA.

I also thank Chris Jansen for the significant contribution he made in his short time with the AA, and Andy Boland for his sustained and valuable contribution over the many years he was with the AA. We wish them both well.

Introduction to John Leach, Senior Independent Director

The appointment of John Leach as Senior Independent Director was a key milestone in establishing strong corporate governance at the AA. I am delighted to work alongside him and the other Non-Executive Directors who each play a significant role in the governance of the AA. We have ambitious plans and their contribution will be highly valued as we begin the process of transformation.

Bob Mackenzie
Executive Chairman

Governance overview from John Leach, Senior Independent Director

I am honoured to have been appointed SID and to be tasked with safeguarding **the interests of our stakeholders**, and particularly the shareholders, of the AA.

John Leach
Senior Independent Director

Governance

On 26 June 2014, the AA was admitted to the London Stock Exchange (LSE) after its Initial Public Offering (IPO). Having been admitted initially to the Standard List, owing to the accelerated nature of the IPO, we subsequently applied to join and were admitted to the Premium List with its rigorous regulatory requirements on 28 January 2015.

The Board is committed to and recognises the importance and value of good corporate governance. Following the appointment of a majority of non-executive directors, we have established the appropriate practices and procedures for a Premium Listed public company. We comply with the recommendations set out in the UK Corporate Governance Code other than Bob Mackenzie's role of Executive Chairman.

Bob Mackenzie, Martin Clarke and Nick Hewitt, the Management Buy-In (MBI) team, recognised the potential in the AA and the value that bringing it to the stock market would unlock for shareholders. This team, with its extensive experience of transforming business performance and ambitions for the AA, is therefore best placed to deliver the long-term plan for growth. The Board has concluded, with the support of major shareholders, that it would be in the best interests of the business to retain Bob Mackenzie in the role of Executive Chairman. He expects to become Non-Executive Chairman once the transformation is well progressed.

The biographies of our Board are provided on pages 36 and 37 of this report and the Governance report can be found on pages 38 to 45.

"Our strategic priorities will help us build on and unlock the value of membership."

Bob Mackenzie
Executive Chairman

Strategic priorities

As set out in the Executive Chairman's statement, our **three strategic objectives** remain those presented in the investment case for our initial public offering in June 2014. We state them below:

1 Strengthen the AA as the pre-eminent motoring services organisation in the UK

The AA is dedicated to serving the needs and interests of our members and customers and to continually improve our offering. We will develop our services while maintaining the outstanding experience delivered in our roadside assistance business, our core segment. Our aims are to strengthen Member benefits to improve loyalty; work more closely with our business partners as car technologies develop; and further enhance the motoring propositions we offer within the UK's consumer motoring market.

2 Reduce Group borrowings and the associated interest costs

We are highly cash generative with low maintenance capital expenditure requirements and a negligible working capital investment requirement. Continuing to improve our operating profit will help generate significant further free cash flow. This will facilitate a sustained reduction in leverage and associated interest costs as well as allowing us to pursue a progressive dividend policy. The refinancing represents significant progress in addressing this objective.

3 Revolutionise customer experience through investing in and embracing new technologies

We will seek to invest in new technologies and improved customer systems to stimulate growth and enhance productivity across our business. As part of this we will invest in enhanced customer relationship management systems to allow our members to engage with us more easily. In addition, we will invest in our digital capabilities to help us provide tailored and distinctive products for them. We have a unique position as "Britain's most trusted commercial brand" and a leading position with motor manufacturers. This will provide the foundation for our investment in advanced diagnostics, using remotely gathered data to deliver emergency support. We are currently exploring a number of potential partnership opportunities in this area. We will also develop new distinctive services as the mobile connected motoring market develops.

Increase roadside Membership through **leading** service and **loyalty**

The AA leads the consumer roadside assistance market with a share of more than 40% which has been achieved by a continual dedication to outstanding service. In September 2014, the AA was awarded Which? Recommended Provider status in its survey of breakdown providers. This was the ninth successive year we held this or the previous Which? Best Buy recommendation. The continued upgrading of "in-van" advanced diagnostic systems has helped to increase our rates of first-time repairs at the roadside. A greater focus on Personal Member retention is already yielding benefits and helping to reduce the loss of Personal Members while maintaining income per Member. We expect to accelerate this through investment in pricing in the current year.

In the future, we will significantly enhance the AA Membership proposition to help reduce customer churn, stabilising and then growing the number of Personal Members in future years.

The AA is a leading provider of new driver training through its two driving schools, British School of Motoring (BSM) and the AA Driving School. In the past the level of take up of Personal Membership from these new drivers has been relatively low but we intend to place greater focus on winning these customers in the future.

Key initiatives to deliver our strategic objectives

We are now building the following detailed plans for the strategic initiatives to deliver these objectives.

Investment in **technology** and **people**

Under its previous ownership and during the recent recession, levels of investment in both systems and people were curtailed at the AA.

A fundamental part of our strategic plan is to replace the systems that are constraining our ability to grow our business and depressing our productivity. We are therefore accelerating our investment in systems with expected investment of approximately £128 million over the next three years, of which £82 million is to be invested in the 2016 financial year. We expect this investment to deliver significant savings in IT capital spend in the medium term. Taking into account these savings, the overall incremental spend is expected to be £70 million over the next five years.

We have appointed an experienced and ambitious executive management team to execute the transformation and drive the business forward. We have also announced plans to increase our London presence to enable us to take maximum advantage of the talent and specialist skills available, particularly in marketing and digital development.

Restructuring of the business is underway to ensure we are more competitive, commercially agile and efficient. One-off restructuring costs are estimated at approximately £45 million over the next three years. With considerable natural attrition and reduced property costs, we expect savings of approximately £40 million per year once this programme is complete.

Strategic priorities continued

Evolve the Insurance Services and Financial Services **business models** to drive profitable growth



The AA is a leading UK insurance broker and we had more than two million insurance policies in place at 31 January 2015. However we can do more to capitalise on the competitive advantage derived from our proprietary data such as the number of breakdowns a Member has in a year. Through sophisticated customer analysis, rating and tailored pricing capabilities, we believe that we can widen our footprint, meeting more Members' insurance needs. To fully capitalise on this competitive advantage, we intend to set up an in-house insurance underwriter to participate on the AA's Motor Insurance panel. Our intention is to increase underwriting over time. Building on these strengths we will, in future, be able to provide more competitive and distinctive offers to members.

As we evolve our Insurance Services business, we will also invest in our Financial Services business to increase the attractiveness of our Financial Services products.

Deliver a **step-change** in digital capability

We have a significant online presence with theAA.com, recording around 150 million hits per annum. This has been driven largely by the popularity of the AA Route Planner. We also have significant digital content, including breakdown recovery services, education, travel and hospitality guides.

There is an opportunity to enhance customer relationships and commercial performance through a simpler and more coherent online experience. Additionally, we intend to build our mobile expertise to facilitate greater integration between roadside patrols, Members and motor manufacturers. We have recently re-launched the AA app providing a single consolidated portal for many of our services including the ability to request assistance and monitor the location of the allocated patrol in real time. Our current exploration of telematics partnership structures should lead to further enhancement of this customer proposition.

Strategic priorities continued

Leverage the brand to **capture the opportunity** in the broader motoring sector

The AA is an iconic brand that is widely recognised and respected. However, the AA has not invested in its brand since 2008, resulting in the lowering of brand awareness. We now plan to support our broader strategic initiatives with an investment in our brand of approximately £10 million per year.

The brand gives us the credibility to market our suite of existing services to a broader customer base. Specifically, there is upside potential in the used-car market through the rapidly growing AA Cars website which can also be used as a channel for sales of Roadside Assistance. We also recognise significant opportunity in leveraging our brand to provide AA services to the dealer market. This includes extending AA Warranty, AA Inspections and the creation of a new AA digital service and MOT portal.

In addition, we will ensure we retain our position as the leading provider of driver education and development. We continue to investigate new business areas and evaluate the benefits of additional investment.

Grow our Business Customer service offer through **greater integration** with our partners

We have the market-leading position with motor manufacturers, providing warranty roadside assistance for 67% of all new cars in the UK. In the shorter term, we will develop these customer relationships to present the benefits of extending cover once the warranty has expired. Looking out further, the long-term nature of our Business Customer motor manufacturer relationships, through agreed contracts, will facilitate greater strategic integration and partnership. This will encompass the early adoption of enabling technologies to comply with European directives on car connectivity. In turn this should lead to the provision of new customer-facing services to the motor industry.

Financial impact in summary

The current year will be one of transition and we have developed our strategy and begun making the considerable investment and operational changes which we anticipated at the time of the IPO.

We are accelerating our investment in systems to start the programme of modernisation in the back office and systems. We expect to invest £128 million over the next three years of which £82 million is planned to be invested in the 2016 financial year. We expect this investment to deliver significant savings in IT capital spend in the medium term. Taking into account these savings, the overall incremental spend is expected to be £70 million over the next five years. However, in order to continue to deliver our first-rate services without disruption, we will continue using old technology and processes while implementing the new.

Restructuring to ensure we are more competitive, commercially agile and efficient will incur one-off costs estimated at approximately £45 million over the next three years. Taking into account considerable natural attrition and reduced property costs, we expect savings of approximately £40 million per year once this programme is complete.

In addition we will increase our investment in brand marketing by approximately £10 million per annum. We are confident that these short-term investments will drive future revenue, earnings and cash generation.

Financial review

The financial year to 31 January **2015** was a significant year in the history of the AA and the beginning of a new era. The ownership of the AA changed and a new management team took over in June, followed in November by my appointment as CFO.

Martin Clarke
Chief Financial Officer

Revenue

Year ended 31 January	2015 £m	2014 £m
Roadside Assistance	728.1	712.5
Insurance Services	142.4	148.9
Driving Services	73.7	72.6
Ireland	38.7	39.6
Insurance Underwriting	0.6	0.3
Group revenue	983.5	973.9

Revenue growth of £9.6 million to £983.5 million was largely attributed to our Roadside Assistance business. An increase in income per Personal Member and strong retention rates drove an increase in revenue of £15.6 million. Insurance Services revenue was down on the prior year by £6.5 million due to the shift in the mix of Motor sales to lower-value new business. Ireland revenue has fallen due to the weakening of the euro over the year.

The Insurance Underwriting segment consists of the Group's reinsurance vehicle which reinsures certain private motor insurance business that originates within the Insurance Services segment. There has been a small increase in activity during the financial year ending 31 January 2015, although these contracts are expected to expire in December 2015. We are currently developing plans to launch an in-house insurer, as discussed in the strategic priorities section of this report.

Trading EBITDA

Year ended 31 January	2015 £m	2014 £m
Roadside Assistance	358.9	348.2
Insurance Services	83.9	89.4
Driving Services	20.4	15.6
Ireland	14.8	15.0
Insurance Underwriting	(0.1)	(0.1)
Head Office costs	(47.8)	(45.3)
Group Trading EBITDA	430.1	422.8
Trading EBITDA margin (%)	43.7	43.4

Group Trading EBITDA increased by 1.7% to £430.1 million (2014: £422.8 million) while Trading EBITDA margins increased to 43.7% (2014: 43.4%). This growth was driven primarily by Roadside Assistance revenue growth, offset slightly by the increase in the costs of using garages when our own patrols were unable to provide assistance by the roadside. In July, we renegotiated the terms of our leases for the supply of cars for driving schools and employees resulting in a change in the classification of these leases as finance leases. This increased Trading EBITDA by £3.3 million and depreciation by £3.0 million; therefore increasing operating profit by £0.3 million. Insurance Services Trading EBITDA reduced by £5.5 million, despite flat Motor and Home policies, due to a change in mix between renewals and new Motor policies resulting in more introductory discounts.

Group Trading EBITDA includes £47.8 million (2014: £45.3 million) relating to Head Office costs which include £4.4 million of continuing, incremental expenditure related to being a public company (which is expected to be approximately £8 million in a full year). Excluding this, Head Office costs, including IT, finance, property and other back-office support functions, were £1.9 million lower as a result of a Group restructuring project, delivered in the 2014 financial year, as well as a continuing programme of cost management. This expenditure excludes the impact of share-based schemes that are separately disclosed and are not reported within Trading EBITDA.

Operating profit

Year ended 31 January	2015 £m	2014 £m
Trading EBITDA	430.1	422.8
Items not allocated to a segment	(6.4)	5.2
Amortisation and depreciation	(48.3)	(39.6)
Share-based payments and acquisition earn-out costs	(1.9)	(2.2)
Exceptional items	(47.6)	(14.6)
Operating profit	325.9	371.6

Operating profit reduced by £45.7 million to £325.9 million (2014: £371.6 million). The increase in Trading EBITDA was offset by an increase in exceptional items, principally those arising from the IPO as well as additional costs relating to the reorganisation of Group activities.

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. These principally related to the difference between the cash contributions to the pension schemes for on-going service and the calculated annual service cost. For the year ended 31 January 2014, there was a one-off benefit of £12.4 million relating to the closure of the Irish pension scheme that is not expected to reoccur (see note 25).

Amortisation and depreciation increased by £8.7 million to £48.3 million (2014: £39.6 million). £3.0 million of this increase relates to the reclassification of the driving school and employee car leases from operating leases to finance leases. The balance of the increase in amortisation and depreciation principally relates to the on-going expenditure on IT systems and hardware.

Share-based payments relate to an accounting charge for the management value participation shares and the employee share incentive plan (see note 34).

Exceptional costs of £47.6 million included £33.7 million relating to the IPO and refinancing transactions (2014: £13.8 million). The remaining exceptional items of £13.9 million in the year (2014: £0.8 million) principally relate to cost restructuring activities including the costs of redundancy payments and onerous property costs from the reorganising of Group operations.

Net finance costs

Net finance costs increased to £265.1m in the year (2014: £179.2m). This increase is due to the full year impact of the Group's financing activities that completed on 2 July 2013 and includes an exceptional write-off of debt issue fees of £20.7m (2014: £20.3m) due to the refinancing of £913m of debt in May 2014 and the repayment of £175m of PIK notes in December 2014 as well as a PIK note early repayment fee of £3.5m (2014: £nil). Also included in net finance costs are the on-going amortisation of debt issue fees of £8.9m (2014: £9.0m) and pension interest costs of £10.7m (2014: £6.8m).

Taxation

The tax credit for the period is £8.3 million (2014: tax charge of £39.4 million). This includes a credit of £22.0 million relating to the recognition of tax losses that are forecast to be utilised against future taxable profits following the IPO. Excluding this credit and the impact of costs relating to the IPO of £14.7 million that are non-deductible for corporation tax, our underlying effective tax rate is 18.1% (2014: 20.4%).

Profit and earnings per share

Profit after tax reduced by £84.3 million to £69.1 million (2014: £153.4 million).

Basic earnings per share reduced by 19.4p from 32.7p to 13.3p. This reduction is due to the full year impact of the finance costs from the Group's financing transactions in 2014, exceptional costs relating to the IPO and an increase of 84.7 million in the number of shares that were issued at the time of the IPO.

Cash flow and liquidity

Year ended 31 January	2015 £m	2014 £m
Cash flow from operating activities before exceptional items and taxation	430.5	433.0
Exceptional items and tax paid	(59.7)	(45.6)
Cash flow from investing activities	(30.0)	(24.5)
Cash inflow from IPO	199.2	–
Repayment of PIK notes	(175.0)	–
Cash flow from other financing activities	(265.5)	(193.1)
Net increase in cash and cash equivalents	99.5	169.8
Cash conversion (%)	100.1	102.4

The AA's cash generation has remained strong with net cash flows from operating activities before exceptional items and tax of £430.5 million (2014: £433.0 million) and cash conversion of 100.1% (2014: 102.4%). These cash flows include £15.4 million of proceeds from sale of vehicles (2014: £nil) following the change in lease terms for driving school vehicles and employee cars.

During the year, the Group raised £199.2 million from the IPO. These proceeds were principally used to repay £175.0 million of PIK notes in December 2014 and partially funded some of the exceptional IPO costs.

The increase in cash and cash equivalents for the year of £99.5 million was £70.3 million lower than in the previous year (2014: £169.8 million). This reduction was due to exceptional IPO costs, an increase in investment in IT and the full year impact of the interest costs on the Group borrowings.

Financial review continued

The AA has a cash balance of £301.5 million invested in AAA money market funds, giving overnight access and high liquidity. In addition, we have access to a £150 million Working Capital Facility. The Working Capital Facility was undrawn save for a £10 million ancillary facility, which has been used to issue letters of credit to certain corporate insurance providers. We do not currently envisage needing to draw on the Working Capital Facility for the foreseeable future.

We are required to hold segregated funds as "restricted cash" in order to satisfy regulatory requirements governing our Insurance Underwriting business and Irish subsidiaries. These restricted cash balances were £24.2 million (2014: £23.7 million). In addition we had £18.5 million of pre-funded cash to pay PIK note interest (2014: £55.4 million).

Net debt, financing transactions and whole business securitisation

In July 2013, more than £3 billion of debt was raised in the banking and capital markets, and an investment grade secured corporate financing structure, commonly referred to as a Whole Business Securitisation (the WBS) was put in place. At the same time a high yield offering of £655 million of Class B secured notes was completed. Through a combination of the repayment of intercompany balances and the payment of dividends, these proceeds were passed to the Acromas group.

Subsequently, a number of financing transactions have taken place whereby additional Class A notes have been issued and the Senior Term Facility has been repaid. During the financial year, in May 2014, we issued £250 million of Class A4 notes and partially repaid the Initial Senior Term Facility. At that time a New Senior Term Facility of £663 million was also put in place with the AA's key relationship banks to replace the Initial Senior Term Facility. Following this, the AA wrote off £17.9 million of debt issue fees relating to the Initial Senior Term Facility. The margin on the new facilities has been set at 2% per annum over LIBOR and additional interest rate swaps have been entered into, fixing LIBOR at 1.98% until 31 July 2018 and then at 3.00% until 31 January 2019.

In addition to the WBS structure, £350.0 million of PIK notes were issued in November 2013. These PIK notes are outside the WBS and the high yield offering and have no recourse to the assets secured by the WBS and the high yield offering. In December 2014, we prepaid £175.0 million of these PIK notes, using most of the proceeds generated from the IPO. As part of this transaction, we incurred an early repayment fee of £3.5 million and wrote off £2.1 million of debt issue fees relating to the PIK notes.

A summary of the AA's financing transactions since July 2013 is shown below:

	Initial Senior Term Facility £m	New Senior Term Facility £m	Class A1 notes £m	Class A2 notes £m	Class A3 notes £m	Class A4 notes £m	Class B notes £m	PIK notes £m	Total £m
Issue date:									
2 July 2013	1,775.0	–	300.0	325.0	–	–	655.0	–	3,055.0
27 August 2013	(362.0)	–	175.0	175.0	–	–	–	–	(12.0)
7 November 2013	–	–	–	–	–	–	–	350.0	350.0
29 November 2013	(500.0)	–	–	–	500.0	–	–	–	–
2 May 2014	(913.0)	663.0	–	–	–	250.0	–	–	–
19 December 2014	–	–	–	–	–	–	–	(175.0)	(175.0)
Total	–	663.0	475.0	500.0	500.0	250.0	655.0	175.0	3,218.0

A summary of the AA's borrowings with maturity date and effective interest rates are outlined below:

	Expected maturity date	Interest rate %	Principal £m
Senior Term Facility	31 January 2019	3.98	663.0
Class A1 notes	31 July 2018	4.72	475.0
Class A2 notes	31 July 2025	6.27	500.0
Class A3 notes	31 July 2020	4.25	500.0
Class A4 notes	31 July 2019	3.78	250.0
Class B notes	31 July 2019	9.50	655.0
PIK notes	6 November 2019	9.50	175.0
		5.90	3,218.0

The weighted average interest rate for all borrowings of 5.9% has been calculated using the effective interest rate and carrying values on 31 January 2015.

Net debt

Year ended 31 January	2015 £m	2014 £m
Senior Term Facility	663.0	913.0
Class A notes	1,725.0	1,475.0
Less: AA Intermediate Co Limited group cash and cash equivalents	(261.2)	(144.7)
Net senior secured debt ¹	2,126.8	2,243.3
Class B notes	655.0	655.0
Finance lease obligations	50.4	20.0
Net debt excluding PIK notes ²	2,832.2	2,918.3
PIK notes	175.0	350.0
Less: AA plc Group cash and cash equivalents ³	(40.3)	(58.5)
Total net debt	2,966.9	3,209.8
Net debt ratio ⁴	6.9x	7.6x
Class B leverage ratio ⁵	6.6x	6.9x
Senior leverage ratio ⁶	4.9x	5.3x
Class A free cash flow: debt service	3.5x	3.3x
Class A free cash flow: debt service	2.2x	2.2x

1 Principal amounts of the Senior Term Facility and Class A notes less AA Intermediate Co Limited group cash and cash equivalents.

2 Principal amounts of the Senior Term Facility, Class A notes, Class B notes and finance leases less AA Intermediate Co Limited group cash and cash equivalents.

3 Total cash and cash equivalents for the Group excluding the value reported as the AA Intermediate Co Limited group cash and cash equivalents.

4 Ratio of Total Net Debt to Trading EBITDA for the last 12 months.

5 Ratio of Net Debt excluding PIK notes to Trading EBITDA for the last 12 months.

6 Ratio of Net Senior Secured Debt to Trading EBITDA for the last 12 months.

We have achieved deleveraging owing to improved profitability combined with net cash generation after debt service and primary proceeds from the IPO. At the period end, net debt was 6.9 times Trading EBITDA and net senior secured debt was 4.9 times Trading EBITDA.

Finance lease obligations have increased by £30.4 million due to the reclassification of the leases for driving school and employee vehicles as finance leases. The Group also recognised an asset of £27.9 million relating to these vehicles.

Under the terms of the AA's borrowings, there are two covenants in place which measure the ratio of the Group's debt service costs to free cash flow. Class A free cash flow was 3.5 times debt service and Class B free cash flow was 2.2 times debt service showing substantial covenant headroom versus the requirements of 1.1 and 1.0 times respectively. The Directors do not envisage this situation changing in the foreseeable future.

Pensions

At 31 January 2015, the IAS19 net retirement deficit increased to £434.4 million (2014: £265.5 million). This increase is due to a reduction in the corporate bond yield used as the discount factor in determining the present value of our future pension liabilities.

The most recent actuarial revaluation of the UK pension scheme was carried out at 31 March 2013 and showed a deficit of £202 million. Subsequent to this, the AA Group implemented an asset-backed funding scheme whereby an annual deficit reduction contribution of £12.5 million, increasing with inflation, is made over a period of up to 25 years secured on our brands. This also generated a one-off £198 million tax deduction that we had fully utilised by 31 January 2015. This compared favourably to a traditional deficit reduction plan that would have required the deficit to be reduced over a substantially shorter period.

In addition, during the year ended 31 January 2014, the AA closed its pension scheme in Ireland for the future accrual benefits, replacing it with a defined contribution scheme for employees.

Martin Clarke
Chief Financial Officer

Our performance

Key performance indicators

The AA's key strengths are largely measurable and provide the foundations of our strategy. The KPIs listed below measure these key strengths, including those reflecting the non-financial drivers of our success, and are linked to our strategic priorities.

Remuneration is therefore linked to all these measures, either directly or indirectly. The focus of our strategy is to deliver value to shareholders and this is also reflected in the KPIs.

Achieve strong financial performance leading to the delivery of sustainable shareholder returns

Key strength Strategic objective	KPI	Definition	Data
High recurring revenue and cash flow generation arising from strong Trading EBITDA	Revenue	Income generated from the operating activities of the Group.	£983.5m +1.0%
	Trading EBITDA	The key measure of segmental performance is considered to be Trading EBITDA being earnings before interest, tax, depreciation and amortisation excluding exceptional items, share-based payments, acquisition earn-out costs and items not allocated to a segment. In the current period items not allocated to a business segment principally relate to the difference between the cash contributions to the pension schemes for on-going service and the calculated annual service cost.	£430.1m +1.7%
High cash flow generation	Cash conversion	Net cash inflow from operating activities before tax and exceptional items divided by Trading EBITDA.	100.1% -2.3ppt
Reduce borrowings	Leverage	Ratio of net debt to Trading EBITDA for the last 12 months (see page 23).	6.9 +9.2%
Reduce borrowings and associated interest costs	Interest cover	Trading EBITDA divided by cash finance costs (see note 5) excluding any early repayment fees.	2.0 +39.4%

Strengthen the AA as the pre-eminent motoring services organisation in the UK and revolutionise customer experience

Key strength Strategic objective	KPI	Definition	Data
Market leader in roadside assistance	Personal Members (millions)	Number of Personal Members at the period end.	3.8m -4.5%
	Business Customers (millions)	Number of Business Customers at the period end.	9.6m +14.1%
Strong market positions	Insurance policies (millions)	Total policies sold in the last 12 months excluding Business Customers within Home Emergency Response.	2.2m -5.5%
	Franchised driving instructors	Number of driving school instructors at the period end.	2,670 -5.9%
Scale and barriers to entry	Patrols	Number of employees that attended breakdowns.	3,081 +3.4%
	Breakdowns attended (millions)	Number of breakdowns attended.	3.5m stable

Create shareholder value

Key strength Strategic objective	KPI	Definition	Data
Shareholder value	Total Shareholder Return (%)	Total shareholder return represents the change in closing value of a share held for the period to 31 January plus the value of any dividends paid during that period. For 2015, this has been measured using the share price on initial admission of £2.50 compared to the share price as at 31 January 2015.	43%

+ Read about our Financial performance on p20 >

+ Read about our Corporate Responsibility report on p32 >

Our performance continued

Roadside Assistance

The Roadside Assistance division is the largest in the AA **contributing £358.9 million, which amounts to 75% of the Group's Trading EBITDA¹**.

Revenue

Trading EBITDA

■ Percentage of Group revenue

Trading EBITDA margin

49.3%

2014: 48.9%

Personal Members

3,770,000

2014: 3,946,000

Business Customers

9,640,000

2014: 8,451,000

■ Percentage of Group Trading EBITDA¹

Average income per Business Customer

£19

2014: £21

Breakdowns attended

3.5m

2014: 3.5m

Average income per Personal Member

£135

2014: £126

Headlines

- › Income per Personal Member rose and retention rates were stable
- › The Roadside Assistance contract with Lloyds Banking Group and TSB Bank, encompassing both Lloyds Bank and TSB brands, was renewed for five years from April 2014. Lloyds Banking Group is our largest customer
- › We retained our contracts with car manufacturers Ford Motor Company and Jaguar Land Rover; and won contracts with VWG, Hyundai and Porsche for the first time. The AA now provides roadside assistance to 67% of the UK's new vehicle manufacturers
- › Awarded *Which? Recommended Provider* status for both consumer and AA-provided manufacturer breakdown cover for the ninth year in a row

Overview

Last year, our nationwide patrols attended nearly 10,000 breakdowns per day, repairing approximately 80% of vehicles at the roadside. By getting them back on their way quickly and safely, our patrols reinforce the value of our service which supports our high customer retention rates.

Roadside Assistance also includes additional products such as vehicle inspections, windscreen replacement and the Group's publishing activities. Collectively these businesses generate approximately £8 million of Trading EBITDA.

Financial performance

Roadside Assistance revenue of £728.1 million grew 2.2%, driven by stable retention rates, an increase in the average income per Personal Member and new contract wins for Business Customers.

Personal Members declined by 4.5%, while average income per Personal Member increased by 7.1% compared with the same period in the prior year. During the year we experienced a reduction in new business volumes across our core channels of online, telephone and face-to-face sales as a result of testing increased prices to better reflect the premium value of our service. Additionally, we had fewer renewal opportunities because recruitment of Personal Members in the previous year was lower. Retention, however, was stable, demonstrating the positive impact of the investment in headcount and training programmes at our contact centres which focused on retaining existing customers.

The new strategy will focus on achieving improvements to both new business recruitment and retention.

Overall, we improved revenue from business customers driven by a 14.1% increase in Business Customers compared with the same period last year. New, prestigious contract wins included the VWG, Hyundai and Porsche. This success partially offset the lower price achieved on the renewed Lloyds contract which resulted in the overall reduction in average income per Business Customer.

Trading EBITDA increased by £10.7 million to £358.9 million, mostly from the improvement in revenue. Trading EBITDA margin increased from 48.9% to 49.3%. This was a strong performance in view of the slight increase in the overall costs of delivering roadside assistance services owing to higher spend with our garage network.

¹ Excluding Head Office costs.

Insurance Services

The Insurance Services division **contributes 18% of the Group's Trading EBITDA¹ at £83.9 million.**

Revenue

Trading EBITDA

■ Percentage of Group revenue

■ Percentage of Group Trading EBITDA¹

Trading EBITDA margin

58.9%

2014: 60.0%

Policy numbers

2,163,000

2014: 2,290,000

Average income per policy

£66

2014: £65

Headlines

- › Reversed the seven-year decline in Motor Insurance policy volumes with a successful focus on sales
- › Renewal rates of both Motor and Home Insurance reached their highest levels since 2008
- › We achieved significant cost efficiencies in our call centres
- › Our core products of Motor and Home Insurance achieved the top award, a five-star rating, from DEFAQTO, the independent researcher of financial products

Overview

As an insurance broker, we arranged 2,163,000 policies for Motor Insurance, Home Insurance and Home Emergency Response for emergency repairs to boilers, heating systems and other domestic installations.

Through its intermediary financial services business, the AA offers a range of competitive products including savings, loans and credit cards.

Financial performance

Insurance Services revenue was down £6.5 million on the prior year to £142.4 million, reflecting a 5.5% decline in policy numbers as well as the mix between renewals and new business.

Overall policy numbers, excluding Home Emergency Response, remained relatively stable year-on-year. Total renewals were down, reflecting the lower number of customers who could potentially renew compared to the previous year, which masked the strongest renewal rates in seven years for both Motor and Home policies. This decline was offset by an increase in new customer sales for Motor Insurance and given the competitive nature of the motor insurance market means that the income for new business customers is below that of renewing customers, resulting in a small decrease in average income per member, excluding Home Emergency Response customers.

The investment in marketing to secure these additional new customers resulted in a lower Trading EBITDA margin. This was offset slightly by improvements in efficiency within our contact centres.

Home Emergency Response policy numbers were lower year-on-year resulting from the curtailment in the prior year of the offer of free Home Emergency Response insurance as an incentive to buy Motor Insurance. The benefit of this is seen in the increase in overall Insurance Services income per policy. During the year, we also improved delivery of Home Emergency Response services to existing customers and increased the efficiency of our engineers.

¹ Excluding Head Office costs.

Our performance continued

Driving Services

The Driving Services division provided **£20.4m of Group Trading EBITDA**. This division comprises our Driving School business and DriveTech. Our driving school business comprises the AA Driving School and the British School of Motoring (BSM) which are the two largest driving schools in the UK with **2,670 franchised driving instructors**.

Revenue

Trading EBITDA

■ Percentage of Group revenue

■ Percentage of Group Trading EBITDA¹

Trading EBITDA margin

27.7%

2014: 21.5%

Driving Instructors

2,670

2014: 2,837

Headlines

- › Growth in pupil numbers reflected a buoyant market despite the reduction in the number of franchised driving instructors
- › The number of DriveTech courses improved following the introduction by the Police of a new administrative process
- › Refinancing of the driving school fleet provided significant cost savings

Overview

AA DriveTech is also in this division. This business is the market leader in providing speed awareness courses for Police forces in the UK and fleet training services.

Financial performance

The increase in revenue to £73.7 million arose from higher volumes of core Police training courses delivered through AA DriveTech. This reversed the pressure on volumes in the previous year which resulted from the introduction of a new administration system by the Police.

While driving pupil numbers increased, Driving School revenue declined in line with the 5.9% fall in the number of franchised instructors. The buoyancy of the market has led to many instructors becoming independent.

£3.3 million of the £4.8 million growth in Trading EBITDA to £20.4 million was driven by savings on the fleet costs of the driving schools business. This followed the renegotiation of the terms of our leases and their reclassification as finance leases. The impact of this change is discussed in the financial review on page 20.

Ireland

AA Ireland provides **£14.8m of the Group's Trading EBITDA**. This business operates in Ireland under the same segments as AA in the UK.

Roadside Assistance and Insurance Services are the largest parts of our business in Ireland.

Headlines

- › The business is resilient and has continued to perform well despite difficult economic conditions in Ireland. On a constant currency basis both revenue and Trading EBITDA increased.
- › Personal membership numbers rose, as a result of our improved membership proposition, reinforced by the 105,000 breakdowns which we attended during the year
- › Motor insurance retention benefited from improved competitiveness and our differentiated Motor product

Financial performance

The reduction in revenue to £38.7 million was the result of the weakness of the euro compared to the prior period; on a constant currency basis, revenue rose £1.5 million. This robust performance reflected the success of our strategic focus in Roadside Assistance and Insurance Services. Personal Members increased by 3.5% reflecting an increase in cross-selling from Motor Insurance and higher retention as a result of the focus on adding value to the Membership proposition.

The increase in insurance policy numbers resulted from improvements in sales and marketing and benefited from the full year effect of the prior year's Motor Insurance offering connected to Membership. However, the home insurance market remains weak in the difficult economic condition in Ireland.

Trading EBITDA margin benefited from our successful reduction in administration costs which enabled some additional investment in marketing. This is reflected in Trading EBITDA on a constant currency basis which rose £0.7 million. However, on a reported basis, Trading EBITDA declined £0.2 million to £14.8 million.

Revenue Trading EBITDA

■ Percentage of Group revenue

■ Percentage of Group Trading EBITDA¹

Trading EBITDA margin

38.2%

2014: 37.9%

Personal Members

119,000

2014: 115,000

Insurance policy numbers

178,000

2014: 172,000

¹ Excluding Head Office costs

Risk management

Effective risk management is key to the on-going success of the AA. The Company's new Board of Directors is taking steps to enhance and reinforce the risk management process given the ambitious plans for business transformation and its new status as a premium listed public company. The Board's new Risk Committee has been reviewing the Group's current Risk Management effectiveness and is pursuing a plan of improvements for 2015 taking account of the September 2014 FRC guidance.

AA plc board and management responsibilities

The Board has overall accountability for ensuring that risk is effectively managed across the Group and on behalf of the Board, the Risk Committee reviews the effectiveness of the Group risk process. Each business area is responsible for identifying, assessing and managing the risks in its respective areas supported by Risk Management, Compliance and Health & Safety and other specific functions.

Risk management approach and process

The AA seeks to achieve effective risk management through the following processes:

- › Board determination of the risks that the organisation is willing to take to achieve its objectives (the risk appetite)
- › Identification of the principal risks by the Board and executive management team
- › Active management or mitigation of principal risks to reduce the likelihood of their incidence or impact
- › An effective risk culture with risk management embedded in the business

› The regular review and updating of risk registers including the assessment of risks and their respective controls

› Timely and accurate reporting of incidents and near misses

› The operation and reporting of management 'snap checks' (risk control tests) to confirm the effective operation of key controls

› The implementation and tracking to resolution of management actions for unacceptable risks, deficient controls, incidents and failed 'snap checks'

› The reporting of Key Risk Indicators (KRIs)

Risk appetite

The risk appetite defines the amount and type of risks we are seeking, accepting or aiming to avoid. This year the new Board has redefined the risk appetite for the Group, in the light of the change of status to a Premium Listed Public Company.

Principal Risks

A Principal Risk is a risk or combination of risks that can seriously affect the performance, future prospects or reputation of the entity. These should include those risks that would threaten the AA's business model, future performance, solvency or liquidity.

The Directors have considered the Principal Risks for the AA and these are detailed opposite. These are not the only risks for the AA, a risk register is maintained for each area of the business, but these are the risks the Board have assessed as being the Principal Risks for the business overall. The Risk Committee will review progress on managing the Principal Risks throughout the year.

Risk model

The AA uses a bullseye risk model in identifying and ascertaining the risks to the organisation. This considers core, transitional, strategic and horizon/emerging risks.

Core risks The risks that are a daily part of our business activities (or business as usual risks).

Transitional risks Any imminent or on-going changes to the external business environment or change to the processes, people, systems and business models of the AA.

Strategic risks Any risk that may adversely impact upon the delivery of a strategic objective.

Horizon/emerging risks Potential threats or opportunities that we need to prepare for.

Principal Risks	Description	Mitigating actions
We are unable to maintain an outstanding service at a fair price	The AA's brand and its continued success rely on delivering outstanding service at a fair price. The lack of any significant investment in IT processes and systems in recent years might, if not addressed impact on our continued ability to deliver the service level our Members expect.	<p>We will maintain and protect the ability of our patrols to deliver excellent customer service by providing them with better information delivered through enhanced IT systems and connectivity.</p> <p>We will enhance our marketing and increase the extent of our customer engagement to demonstrate the value of our Membership offerings.</p>
We are unable to grow the business in a manner that complements and sustains the brand	We will be unable to develop and grow new profitable business products and lines that complement the customer experience and which demonstrate standards and values that underly our core brand.	We are pursuing new opportunities that complement our core brand. We are developing new protocols, enhanced database management, and strengthened compliance and risk functions to ensure that we consistently deliver good products and good customer outcomes.
We are unable to maintain our market share and gross margin on our roadside services	Competitors that provide roadside services at a lower price together with changes in car technology threaten our roadside revenues. This requires us to demonstrate more clearly that we deliver a consistent, superior level of service and ensure our pricing remains competitive for the services we deliver.	<p>The IT transformation programme we are undertaking will, in due course, enable us to improve our overall contact with customers materially, consolidating disparate customer data and information systems, enhancing our digital offerings and improving further our roadside response.</p> <p>We are developing and expanding existing added value products and services which will enhance our Membership experience and enable us to be more active in demonstrating the relative benefit of our service levels.</p>
Aggregators and price comparison sites will further damage the insurance broker model	The further growth of price comparison sites may continue to transfer value from our insurance brokering business.	We are building new capability that should enable us to provide a competitive response to these intermediary sites.
A changing regulatory environment may adversely affect our activities	The changing regulatory environment could cause currently compliant services to become non-compliant with material implications for customer offerings, pricing and profitability. Failure to comply with regulatory obligations could result in substantial fines, etc.	Close engagement with regulatory objectives is coupled with good governance and strong monitoring processes to ensure that we continue to focus on delivering products and services that result in good customer outcomes.
We are unable to successfully complete the essential business transformation	A significant change and enhancement to the leadership and management capability was necessary to envision and implement the required business transformation. In particular the Company's marketing and digital services require significant enhancement. Whilst a new Board and senior management team are now in place there is still a need to recruit or develop further talented people to deliver the necessary business capability and ensure adequate succession planning. In addition, we need to develop new management processes to achieve the transformation and strengthen business continuity.	<p>A new Board of Directors with a wide range of relevant business and governance experience has been appointed.</p> <p>We have an Executive Chairman with relevant industry experience and a significant track record of successful business transformation.</p> <p>An accelerated business transformation programme is underway to recruit, develop and retain the required talent and enhance existing management processes.</p>
We are unable to successfully deliver the essential IT transformation	The essential programme of renewal and enhancement of our IT estate is necessary to address the risks to our brand and our competitive capability and to provide improved data and system security particularly against unauthorised access. It is extensive and involves a complex programme of work over the next 18 to 24 months. Given the scale and complexity, the programme involves inherent implementation risks.	<p>A new and experienced management team is driving the overall programme supported by enhanced risk management processes.</p> <p>The IT transformation is being led by executives with a proven track record of IT delivery. It will generally use proven technologies and where possible be implemented and rolled out in discrete stages.</p>
The AA is a highly leveraged company with a substantial pension fund, currently in deficit	<p>The Company is unable to repay or refinance its debt at an acceptable price.</p> <p>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.</p>	<p>We have strong recurring cash flows which support the current capital structure, and which will enable us to reduce leverage over time in line with our stated strategy.</p> <p>The AA pension scheme is supported by a Company covenant and the assets and obligations of the scheme are kept under review.</p>

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

The risks listed 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.

Further information on the financial risks we face and how they are managed is provided in note 28.

Our impact

Corporate responsibility

We will align our corporate responsibility activities with our business strategy, building on the customer and public service culture of the AA and the strengths of our health, safety and environment strategy.

We report our corporate responsibility activities here using as a framework the relationships and resources which affect our ability to deliver value over the long term.

Relationships

We employ more than 8,000 people at seven key locations and over a broad range of occupations; the largest employment groups are customer facing patrols and customer advisers, supported by internal managerial, clerical, back-office and professional staff. Over half of our employees are focused on delivering our core Membership service to our Personal Members and Business Customers, daily, 24 hours a day, throughout the year.

We strive for diversity amongst our employees and ensure female representation at senior level from our Board (1 of 8), the Executive Committee (4 of 17) and senior management team (33 of 123) as at 31 January 2015. The nature and history of our business tends towards a greater number of male employees in our Roadside Assistance business.

As a Group, we recognise the additional challenges faced by disabled people in gaining employment and as members of the Disability Symbol Accreditation Scheme we guarantee to interview any disabled person that meets the minimum criteria of the job they have applied for.

We aim to protect the human rights of our employees through strong relationships with our recognised staff Trade Union, the IDU, providing training and development opportunities, monitoring worker satisfaction and preventing discrimination, harassment and bullying.

We operate a rigorous procurement and supplier evaluation process with existing and potential suppliers, be it sourcing paper from sustainable forests for printed material, electricity from renewable sources, applying environmental controls at our properties, and for waste generated by our mobile patrols. The majority of our supply base consists of UK or Republic of Ireland based companies.

AA Charitable Trust (Registered charity 1125119)

Our contribution to the community at large is represented by the extensive work of the AA Charitable Trust for Road Safety and the Environment, established in 2008 to educate road users about road safety, campaign on issues of road safety and promote awareness of how road safety and eco-driving can reduce the environmental impact of motoring. Over the last year the AA Charitable Trust has concentrated on providing practical initiatives in line with these objectives.

The Trust has funded two types of free driver improvement courses: Drive Confident, which aims to help nervous and lapsed drivers drive with renewed confidence and competence; and Drive Smart, which helps young "at risk" drivers learn safer and more eco-friendly driving techniques. During the year the Trust also completed the pilot stage of a project called Driving for the Disadvantaged. This project, run in conjunction with Bristol University and Bristol Council, gave four young men in the care system, the opportunity to learn how to drive, a rarity for most young people in care.

This short pilot was completed this year by Professor David Berridge from Bristol University and highlighted the disproportionately positive effect that driving lessons had on the self-esteem and confidence of these young people, especially in the case of successful participants who passed the driving test.

250,000

Number of times the 'Think Bikes' short YouTube film was viewed

AA Charitable Trust for Road Safety promotes awareness of how road safety and eco-driving can reduce the environmental impact of motoring

The AA Charitable Trust also launched a new project in March 2014 called Think Bikes which aims to make all drivers more aware of motorbike riders and cyclists. The campaign comprises two main elements: the design, production and distribution of five million side-mirror stickers to remind drivers to do a double-take for those on two wheels and an educational awareness campaign, which included a short YouTube film and PR campaign and was supported by Olympic cyclist Chris Boardman and John McGuinness, 20 time motorcycle Isle of Man winner.

The video has been viewed more than 250,000 times and the campaign won both the FIA International Innovation Award and the Fleet Safety Initiative of the Year Award.

The Think Bikes campaign is now being rolled out by other motoring organisations across Europe.

AA patrols and employees engage in a wide range of charitable activities such as supporting the Help for Heroes 4x4 rally this year, and we were nominated as a company that has championed the support of Defence and reservists across a range of areas, winning a Silver Award in the Government's Defence Employee Recognition Scheme.

In addition to the Charitable Trust, the AA, our patrols and our staff have been longstanding supporters of BEN, a charity established in 1905, which provides support to those who have worked in the automotive and related industries and their dependents. Numerous charity events have been conducted by AA employees in the last year to support BEN.

Roadside safety

As a motoring organisation, we take road safety very seriously, both for our members, patrols and the wider public. We are members of the Safe Use of Roadside Verges in Vehicular Emergencies (SURVIVE) in partnership with the Highways Agency, the Home Office, the Association of Chief Police Officers and the roadside recovery industry.

SURVIVE is dedicated to improving the safety of those who work on the national road network, and the safety of the travelling public. We are active in all three working groups and the executive committee of the partnership. We also support and were instrumental in helping to set up the United Nations Decade of Action for Road Safety.

In 2014 we supported Thames Valley Police's Safe Drive Stay Alive road safety road show delivered to over 17,000 17-19 year old students along with an anti drink drive social media campaign with Pernod Ricard UK aimed at teenage drink drivers.

Representing the motorist

As a membership organisation, it is important that we represent our Members' views responsibly. We do this through the biggest dedicated motoring opinion panel in Europe, overseen by Populus, one of the UK's most respected independent polling organisations.

Our AA/Populus panel has over 150,000 members and each month we get approximately 20,000 responses on a variety of current motoring and safety issues. The results are disseminated to Government ministers and the media to raise awareness and drive change. This year we have received 240,000 responses to our polls and influenced Government policy on issues such as banning smoking in cars with children present; more funding for potholes; maintaining the MoT frequency and safety of hard shoulder running.

Our polls on how drivers react to flooded roads led to a major joint campaign with the Environment Agency. Views on drink driving were incorporated into our summer and winter anti drink drive campaigns and as part of our summer safety campaign AA patrols gave away 50,000 free sachets of sun cream.

We make a concerted effort to be in touch with Government and policy makers on issues of road safety and issues affecting motorists. Edmund King, President of the AA, regularly participates in conferences including the Parliamentary Advisory Council for Transport Safety, the Institute of Engineering and Technology and Road Safety GB in the UK and Northern Ireland.

Longstanding supporters of BEN, a charity providing support to those who have worked in the automotive and related industries and their dependents

Our AA/Populus panel has over 150,000 members

'Think Bikes' which aims to make all drivers more aware of motorbike riders and cyclists

Supporting the Help for Heroes 4x4 rally

Corporate responsibility continued

Resources

Our carbon footprint boundaries identify the scope of the data we monitor and are deemed material to our environmental impact. The 2014/15 data forms the baseline for our greenhouse gas ("GHG") footprint; the Group's total GHG emissions for the year is 42,230 tCO₂e (see table opposite) largely from operational fuel consumption from our roadside service.

In addition to total emissions, the Group also monitors emissions in relation to both occupied floor area, and number of operational jobs. This allows us to express our annual emissions in relation to the operational size and efficiency of our business (intensity ratios exclude company car emissions).

The Group's total GHG emissions for the year is 42,230 tCO₂e, with the operational fleet accounting for 74% of these emissions. The carbon footprint of the scoped property portfolio amounts to 9,320 tCO₂e, representing 22% of the Group's total footprint. 96% of emissions from property were emitted from UK sites.

With regard to fleet renewal and servicing, all vehicles are serviced in accordance with manufacturer requirements through a third-party workshop network or at main dealerships. Where required, additional checks are undertaken in line with relevant legislation for the heavy commercial fleet and other recovery equipment. Company cars are leased and replaced on a three-yearly basis. Operational vehicles are also leased and replaced on average every four years for light commercial vehicles and every five years for heavy commercial vehicles.

The fleet replacement programme for the year saw total replacement of 507 vehicles and total growth for the period by 110 vehicles.

Emission source	GHG emissions (tCO ₂ e)
Combustion of fuel and operation of facilities ("Scope 1")	34,702.51
Electricity, heat, steam and cooling purchased for own use ("Scope 2")	7,527.64
Total footprint	42,230.15
Intensity measurement 1 – property (tCO ₂ /’000 SQ ft)	0.012
Intensity measurement 2 – All operational fleet (tCO ₂ or litres/total no. of operational jobs)	0.027

The AA carbon footprint (%)

Category	Emission source	tCO ₂ e	% of emissions
Operational fleet	Scope 1	31,085	74
Company cars	Scope 1	1,825	4
Property – energy	Scope 1 & 2	9,320	22

507

4 years

Number of total fleet replaced in 2014

Operational vehicles are also leased and replaced on average every four years

+110

new vehicles

On the following
pages we set out
our approach to
Governance
and **Board**
responsibilities.

01 Bob Mackenzie, Executive Chairman

Bob has extensive experience in leadership roles at consumer services businesses and in addition to his role as Executive Chairman of the AA is currently serving as Chairman at Northgate plc. His previous experience includes having been Chairman and CEO of National Car Parks and Green Flag as well as CEO of Sea Containers Ltd, Chairman of PHS Group plc and senior executive board positions with a number of other companies. Bob qualified as a Chartered Accountant with KPMG in 1978. Bob also sits on the AA's Nomination Committee.

02 Martin Clarke, Chief Financial Officer

Martin is Chief Financial Officer of the AA and has over 30 years of private equity experience, principally in the role of Partner and Global Head of Consumer for Permira which he joined in 2002. Prior to Permira, Martin worked at Cinven and Silverfleet, the private equity arm of Prudential plc. He has led a number of major transactions and has sat on the boards of several major companies including New Look, Gala Coral and Galaxy Entertainment Group, which is listed on the Hong Kong Stock Exchange.

03 Nick Hewitt, Executive Director

Nick was Global Head of PwC's strategy practice and a partner in PwC Transaction Services. He began his career at Bain & Company and was founder of the COBA Group. He has advised on the commercial and operating strategies of major businesses in the consumer, retail and motoring services sectors for over 25 years. Nick sits on the AA plc Board and on the AA's Executive Committee where his responsibilities include the development of the AA Group, strategy of the AA, and our B2B, manufacturer and partner relationships. Nick also sits on the board of ARC Europe.

04 John Leach, Senior Independent Non-Executive Director

John has served on numerous public company boards as Chairman, CEO or CFO, including Hermes Focus Funds, Demetec AB, Brent Walker (including William Hill and Pubmaster). He is a fellow of the Institute of Chartered Accountants and Association of Corporate Treasurers. At the AA he was appointed a Non-Executive Director in June 2014 and is now the Senior Independent Non-Executive Director and the Chairman of the Nomination Committee.

05 Andrew Blowers, Non-Executive Director

Andrew sold his first business to Churchill Insurance, subsequently joining their executive team. In 2004 he founded Swiftcover Insurance. He was awarded an OBE in 2009. Andrew has worked in an advisory capacity with both the Financial Ombudsman Service and the Consumers' Association. Andrew was appointed a Non-Executive Director in September 2014 with the remit to assist the executive team in developing the AA, particularly in the area of Financial Services. Andrew chairs the Risk Committee of AA plc and is a member of the Audit, Remuneration and Nomination Committees.

06 Simon Breakwell, Non-Executive Director

Simon was a founder of Expedia. He is now venture partner at TCV, a mid-cap fund. He is also a non-executive director of HomeAway, and recently established the European operations of uber.com. As an AA Non-Executive Director he also chairs the Remuneration Committee.

07 Andrew Miller, Non-Executive Director

Andrew was appointed Chief Executive Officer of Guardian Media Group in July 2010. He joined the group as Chief Financial Officer and was appointed to the board in 2009. He was previously group Chief Financial Officer of Trader Media Group. He has also worked at Pepsico, Bass plc and Procter & Gamble. He is a Non-Executive Director of The AA, Decoded and Top Right Group and also sits on the board of Governors of Benjamin Franklin House. Andrew sits on the AA's Remuneration and Audit Committees. Andrew was appointed as Chairman of the Board's Audit Committee and joined the Risk Committee on 25 February 2015.

08 Margaret Young, former Non-Executive Director

Margaret, a Chartered Accountant with an MBA from London Business School served as a member of the AA plc Board from Admission until 25 February 2015 when she resigned for personal reasons; Margaret was Chairman of the Board's Audit Committee during that period, whose responsibilities include oversight of the operation of the AA's Internal Audit function and of the preparation of the AA plc's published financial statements. Margaret's executive career in investment banking and experience as non-executive director, having held numerous PLC board roles since 2001, was greatly appreciated. We thank her for her valuable contribution.

09 Mark Millar, General Counsel and Company Secretary

Mark has spent 12 years as a Company Secretary and General Counsel at Domino's Pizza Group plc and Future plc; before that ten years as a City corporate solicitor, including at Allen & Overy. Mark's role within the AA is to coordinate Board and Committee process and he attends all Board and Committee meetings.

Introduction from the Executive Chairman

On behalf of the Board, I am pleased to present our Corporate Governance Report for the financial year ended 31 January 2015, our first year as a public company. As Executive Chairman, it is my responsibility to ensure that the AA is governed and **managed with transparency and in the best interests of stakeholders.**

The purpose of this report is to provide a clear and accessible explanation of what governance means to the AA in terms of its impact on decision making in the operation of our business and to ensure as far as possible that the values you would expect from the Group are in place and adhered to.

As a Board and as a Group, we believe that corporate governance is more than just a set of guidelines, rather it is a framework which underpins the core values for running the business in which we all believe. It enables us to test whether we do the right things in the right way, with the right safeguards, checks and balances, and whether the right considerations underpin every decision we take.

As announced in June 2014, Nick Hewitt, Martin Clarke and myself formed the Management Buy-In Team (the MBI Team) which identified the AA as a potential investment proposal which we believe has a potential to deliver an improved customer proposition and significant shareholder value. The MBI Team then secured the backing of leading institutional investors including Aviva, Blackrock, CRMC, GLG Partners, Henderson Global, Henderson Volantis, Invesco, L&G and Lansdowne Partners (the Cornerstone Investors) to buy the entire issued share capital of the AA from Acromas and place the ordinary shares with a resulting listing on the standard segment of the London Stock Exchange.

As many of you will have read, Chris Jansen, who had been the Chief Executive Officer since January 2014, left the AA on 31 August 2014 and Andy Boland, the former Chief Financial Officer left the AA on 19 December 2014. With its ambitions for the AA and extensive experience of transforming business performance, the MBI Team considers that it is best placed to develop and deliver the long-term growth plan for the AA. For these reasons, the Board has concluded, with support from major shareholders, that it would be in the best interests of the business to retain me in the role of Executive Chairman and appoint Martin Clarke to replace Andy Boland as Chief Financial

Officer. Nick Hewitt has now taken responsibility for ensuring that we achieve top-line growth and development across the AA, as outlined in our plans. This will include the development of the AA's future strategy and processes for the associated investment decisions.

In addition to the MBI Team, John Leach, Margaret Young and Andrew Miller were appointed as Non-Executive Directors at Admission. During the year, the Nomination Committee undertook a full search process to establish a robust Board necessary to deliver our growth strategy for the AA and having regard to the composition of the Board in terms of diversity, skill and experience, the Board appointed two additional Non-Executive Directors, Simon Breakwell and Andrew Blowers, in September 2014.

Regrettably, Margaret Young resigned from the Board on 25 February 2015. Whilst the Board still has a majority of independent Non-Executive Directors, we have commenced a Nomination Committee process for the appointment of an additional independent Non-Executive Director to replace Margaret in due course.

To enhance the quality of our decision making process and bring the required level of objectivity and independence to the Board, the Nomination Committee appointed John Leach as Senior Independent Director in November 2014. John has served on public company boards as either chairman, CEO or CFO for the past 35 years. He has considerable experience in turnaround situations in the industrial and service sectors. The Board considers John as a suitable and independent sounding board for this process.

There has also been a large focus this year on establishing governance structures, internal control systems, policies and procedures to ensure they are appropriate for a company of our size and reputation. To assist the Board in its oversight functions, we established the Audit, Nomination, Remuneration and Risk Committees.

On 23 December 2014, we announced the transfer of the listing category of all AA plc ordinary shares from a standard listing to a premium listing in accordance with Listing Rule 5.4A of the Listing Rules (the Transfer). The Transfer took effect at 8.00 a.m. on 28 January 2015.

I am pleased to report that except for the combined roles of Chairman and Chief Executive Officer, the Group is in full compliance with the UK Corporate Governance Code and that the required regulatory and governance standards are reflected throughout this report. We believe we have built a vibrant Board, however, there is much to do and we are willing to make things better, so it is essential we are open to ideas which help us improve. This coming year, our Board evaluation process will play a key role in highlighting those areas where we want to do better.

We trust that you will find this report to be fair, balanced and understandable. We believe this practical approach will support our performance for the long term and should thus protect the integrity of our values and the AA brand. On your behalf, as our shareholders, we will continue to work hard to improve further our governance and Board performance.

Bob Mackenzie
Executive Chairman

24 March 2015

Compliance with the UK Corporate Governance Code

Compliance with the UK Corporate Governance Code

The Board is committed to, and recognises the value and importance of high standards of corporate governance. This financial year has seen significant change to the AA Group which was privately owned until the management buy-in, led by Bob Mackenzie, Martin Clarke and Nick Hewitt and the admission of the ordinary share capital of the Company to a standard listing on the London Stock Exchange (Admission). Until Admission the Company was not subject to the Code and, given the accelerated nature of the MBI and Admission, the Company sought a standard listing. Significant further progress was then made on governance, including the appointment of two further Non-Executive Directors to give an independent balance to the Board and an experienced Company Secretary. Accordingly, although the Company has not complied fully with the Code during the year, as at the date of notification of transfer to a premium listing in December 2014, the Company complied with the principles and provisions in the Financial Reporting Council's UK Corporate Governance Code issued in 2012 (the Code), save for having an Executive Chairman, as explained below.

The Code sets out principles and specific provisions on how a company should be directed and controlled to achieve standards of good corporate governance and it provides a guide to a number of key components of effective board practice.

The Code applies to all companies with a Premium listing of equity shares, regardless of whether they are incorporated in the UK or elsewhere. The Company is therefore required to report against the Code for the financial year ended 31 January 2015. A copy of the Code is available at www.frc.org.uk

The required regulatory and governance assurances are provided throughout this report as well as in the Directors' Report on pages 67 to 70.

Board of Directors

The Board is responsible for ensuring leadership through effective oversight and review, whilst setting the strategic direction and delivering sustainable shareholder value over the long term. The Board also considers the impact of its decisions on wider stakeholders including customers, employees, suppliers and the environment.

The Board held six scheduled meetings in the 2014/15 year. Individual attendance of Board and Committee meetings is set out in the table below.

Sufficient time is given at the end of each board meeting for the Chairman to meet privately with the Senior Independent Non-Executive Director and non-executive directors to discuss any matters. The Board held a two-day strategy meeting away from the Head Office in November 2014.

One of the focuses during the year was the creation of an executive management team to support the Board in driving its strategic objectives. In this process, the Company has worked alongside several external consultancy firms, including Collinson Grant and Oliver Wyman, none of which had any other connections with the Company.

Details of the Executive Directors' service contracts are set out in the Directors' Remuneration Report on pages 54 to 66.

Name of current Director	Date appointed	Date resigned	A	B	% of meetings attended
Bob Mackenzie, Executive Chairman,	26 Jun 2014	–	6	6	100%
Martin Clarke, Chief Financial Officer	26 Sep 2014	–	6	6	100%
Nick Hewitt, Group Development Director	26 Jun 2014	–	5 ¹	6	83%
John Leach, Senior Independent Director (from 13 Nov 2014)	26 Jun 2014	–	6	6	100%
Andrew Blowers, Non-Executive Director	25 Sep 2014	–	5	5	100%
Simon Breakwell, Non-Executive Director	17 Sep 2014	–	4 ²	5	80%
Andrew Miller, Non-Executive Director	26 Jun 2014	–	4 ³	6	67%
Name of former Director					
Andy Boland, Chief Financial Officer	25 Jan 2013	19 Dec 2014	4 ⁴	5	80%
Chris Jansen, Chief Executive Officer	06 Jan 2014	31 Aug 2014	1	1	100%
Margaret Young, Non-Executive Director	26 Jun 2014	25 Feb 2015	6	6	100%

Notes

A = Number of meetings the Director attended.

B = Maximum number of meetings the Director could have attended.

1 Nick Hewitt missed the January 2015 Board meeting due to ill health (announced on 26 January 2015).

2 Simon Breakwell joined the Board after the 2014 dates were set and was unable to attend one meeting due to a prior engagement, but read the papers and provided his comments in advance.

3 Andrew Miller was unable to attend two Board meetings due to prior commitments in his role as Chief Executive of The Guardian Media Group, but read the papers and provided his comments in advance.

4 Andy Boland did not attend the Board meeting at which his departure and succession planning were discussed.

Compliance with the UK Corporate Governance Code continued

A Schedule of Matters reserved for the Board's decision and clear Terms of References of its principal Committees, along with the roles of individual Board members, can be found on the Company's Investor Relations website at www.theaapl.com/investors/corporate-governance.aspx

Biographies of the Directors and the Company Secretary and details of their other time commitments are set out on pages 36 and 37.

Board evaluation

We intend to conduct a thorough review of the Board process, practice and culture on an annual basis and with the input of an external facilitator at least once every three years. The first internal evaluation is scheduled for summer 2015.

Focus during the year

During the year the Board, supported by its Committees, focused on:

- › The move from the Standard List to the Premium List
- › The capital structure of the Group
- › Recruitment, particularly in relation to members of the Group executive team and the appointment of two new independent Non-Executive Directors
- › Reviewing corporate governance arrangements
- › Executive and senior management succession planning
- › Reviewing and control of capital expenditure
- › Reorganisation of the Executive Director roles: appointment of Martin Clarke as Chief Financial Officer to replace Andy Boland and Nick Hewitt as Group Development Director
- › Formulating and driving the Group's strategy
- › Reviewing the interim results
- › A detailed review of the risks register, risk appetite and principal risks to ensure the Group's risk profile is aligned with its strategic objectives

A number of key decisions and matters are reserved for the Board's approval and are not delegated to management. These include:

- › Matters relating to the Group's strategy
- › Monitoring current trading against previously reported trading
- › Approval of major acquisitions, disposals, capital expenditure
- › Approval of financial results and overseeing the Group's system of internal control
- › Planning an annual Board effectiveness evaluation
- › Setting the Group's risk appetite and the risk management framework

The Board delegates certain responsibilities to its principal Committees and the Group Executive Committee to assist it in carrying out its functions of ensuring independent oversight. Our principal Board Committees' constitutions include independent Non-Executive Directors and play a key role in supporting the Board. The Chairperson of the Audit, Nomination, Remuneration and Risk Committees provides updates on the 2014/15 activities of each Committee later in this report.

Key areas of discussion during the year

Strategic progress

Progress against strategy is discussed at each scheduled Board meeting to closely monitor strategy implementation by the AA Executive Group. A two-day strategy meeting held away from Head Office in November 2014 provided the opportunity for more relaxed, free-flowing and less structured discussion around a broad range of strategic issues. The Non-Executive Directors were able to share their expertise and provide independent oversight to the direction of the business.

Discussions focused not only on the business plan but also the individuals leading and implementing that plan. These, and other teams that support them, are key to the delivery of the Board's objectives.

Risk monitoring and oversight

Protecting the business from operational and reputational risk is an essential part of the Board's role. During the year the business made progress towards implementing the key areas of our strategy.

The Board, supported by the Risk Committee, maintained close oversight and monitoring of the key business risks, assessing the progress of mitigating activities in the context of our risk appetite. The Group risk profile, owned by the Board, is compiled by Group Risk, using business area risk registers and one-on-one interviews with each Board member and the director of each business unit. Independence is embedded in the process with the oversight from the Risk Committee, ensuring that the risks included in the Group risk profile continue to reflect the business's strategic objectives. The internal audit plan is then mapped to the Group risk profile to provide assurance over mitigating activities.

Executive Chairman

The Board notes the Code principle stating that there be a clear division of responsibilities at the head of the Company and provision that the roles of Chairman and Chief Executive not be exercised by the same individual. In order to successfully lead the Company through the period of flux as a result of its flotation to the London Stock Exchange and upgrade to a premium listing, the Board, following due consideration, (including in respect of his commitments as Chairman of Northgate plc) determined that it was, and remains to be, in the best interests of the Company and Group to retain Bob Mackenzie as an Executive Chairman.

The Board, with assistance from the Nomination Committee, will keep this arrangement under review. It is envisaged that Bob Mackenzie will become Non-Executive Chairman once the business transformation is complete creating a vacancy for, and thereby separation of, the role of Chief Executive Officer. As a result, the division of responsibilities between the Chairman and Chief Executive will be clearly established, set out in writing and agreed by the Board.

The Directors consider that the structure of the Board and the integrity of the individual Directors ensures that no single individual or group dominates the decision making process. There is a common purpose of promoting the overall success of the AA with a unified vision of the definitions of success, the core strategic principles, and the understanding, alignment and mitigation of risks.

The role of the Executive Chairman includes:

- › Providing coherent leadership and ensuring effectiveness in the running of the Board
- › Ensuring Directors receive accurate, timely and clear information and ensuring that agendas emphasise strategic issues
- › Facilitating effective contribution of Non-Executive Directors and arranging informal meetings of the Directors, including meetings of the Non-Executive Directors
- › Being the guardian of the Board's decision making processes
- › Ensuring effective communication by the Group with its shareholders
- › Arranging for the Chairs of the Board Committees to be available to answer questions at the AGM and for all Directors to attend
- › Taking the lead in providing a properly constructed, full, formal and tailored induction programme for new Directors
- › Leading the Group's strategic development direction and objectives
- › Identifying and executing acquisitions and disposals and leading geographic diversification initiatives
- › Reviewing the Group's organisational structure and recommending changes as appropriate
- › Identifying and executing new business opportunities
- › Overseeing risk management and internal controls
- › Ensuring the Group complies with its regulatory obligations and ensuring good links between the Board and the independent boards of the regulated subsidiaries
- › Managing the Group's risk profile including the health and safety performance of the Group
- › Implementing the decisions of the Board and its Committees
- › Building and maintaining effective leadership teams
- › Ensuring the Board is alerted to forthcoming complex, contentious or sensitive issues affecting the Group

Other Executive Directors

Chris Jansen and Andy Boland left the AA on 31 August 2014 and 19 December 2014 respectively. Bob Mackenzie assumed responsibilities of running the Board and driving the strategy of the AA as Executive Chairman.

Martin Clarke replaced Andy Boland as Chief Financial Officer following a period of handover. In addition to his CFO role, Martin Clarke, as a member of the MBI Team with extensive knowledge of capital markets, will focus on our Investor Relations and seek to improve the capital structure of the AA.

Nick Hewitt stepped up to the role of Group Development Director in November 2014 with responsibility for the development of the AA's future strategy and investment.

The role of Chief Financial Officer includes:

- › Recommending to the Board an annual budget and financial plan
- › Examining all trade, investments and major capital expenditure proposed by Group companies
- › Reviewing and monitoring the Group's remuneration policy
- › Overseeing risk management, treasury and internal controls
- › Ensuring effective communication with shareholders and key stakeholders and updating institutional investors on the business strategy and performance
- › Recommending to the Board appropriate changes to the capital structure and debt levels
- › Maintaining relationships with the Group's banks and managing the investment and banking portfolio
- › Ensuring the Group complies with its regulatory obligations and ensuring good links between the Board and the independent boards of the regulated subsidiaries
- › Managing the Group's risk profile including the health and safety performance of the Group
- › Implementing the decisions of the Board and its Committees
- › Building and maintaining effective leadership teams
- › Ensuring the Board is alerted to forthcoming complex, contentious or sensitive issues affecting the Group
- › Identifying and executing new business opportunities

The role of Group Development Director includes:

- › Leading the Group's strategic development direction and objectives in conjunction with the Executive Chairman
- › Identifying and executing acquisitions and disposals and leading geographic diversification initiatives
- › Reviewing the Group's organisational structure and recommending changes as appropriate
- › Identifying and executing new business opportunities

Compliance with the UK Corporate Governance Code continued

Senior Independent Non-Executive Director

John Leach was appointed Senior Independent Non-Executive Director on 13 November 2014. Duties of his role as Senior Independent Non-Executive Director include:

- › Meeting regularly with the independent Non-Executive Directors and providing a sounding board for the Executive Chairman and the other Directors
- › Being available to shareholders if they have reason for concern for which contact through the normal channels of Executive Chairman or Chief Financial Officer is inappropriate
- › Holding annual meetings with Non-Executive Directors without the Executive Chairman present

Independent Non-Executive Directors

In an effort to enhance objectivity, independence and the quality of our decision making process, at Admission, three Non-Executive Directors of the Company were appointed.

The Nomination Committee then undertook a full search process, assisted by external search consultants and appointed Simon Breakwell and Andrew Blowers as Non-Executive Directors in September 2014, bringing independent balance to the Board. John Leach stepped up to the role of Senior Independent Director on 13 November 2014.

The Non-Executive Directors were appointed on the recommendation of the Nomination Committee with regard to the Company's strategic objectives and to ensure a good balance and diversity of skills, backgrounds and experience.

The current Non-Executive Directors of the Company are Simon Breakwell, Andrew Blowers, John Leach and Andrew Miller.

Margaret Young who joined the Board at Admission as a Non-Executive Director and who chaired the Audit Committee resigned for personal reasons on 25 February 2015. The Nomination Committee has commenced a search for an additional Non-Executive Director.

All the Non-Executive Directors are independent in character and judgement and they play a key governance role in protecting shareholders' interests and complement the skills and experience of the Executive Directors. They are tasked with ensuring that Board and Company matters are effectively challenged from a range of external independent perspectives.

The independent Non-Executive Directors met twice during the year, under the leadership of the Senior Independent Director.

The letters of appointment of our Non-Executive Directors are available for inspection at the Company's registered office and will be available for inspection at our AGM.

Duties of independent Non-Executive Directors include:

- › Creative contribution to the Board by way of constructive criticism
- › Independence, impartiality, experience, special knowledge and a different perspective to the Board
- › Guidance on matters of concern and strategy

› Oversight of risk management and internal control

› Protection of shareholder and stakeholder interests

› Constructive challenge to the Executive Directors, and the monitoring of Executive performance

› Support to the executive team in the shaping and delivery of the strategic goals of the business

› Optimisation of shareholder return and protection of shareholder assets

› Ensuring the Board is able to work together effectively and make maximum use of its time

Company Secretary

On 17 September 2014, Rob Scott who is Financial Controller and was also Company Secretary from Admission, stepped down to concentrate on the role of Financial Controller and Mark Millar was appointed Company Secretary and General Counsel. Mark is a qualified solicitor with 12 years' experience in the role of Company Secretary and General Counsel and joins the AA from Domino's Pizza Group plc. Mark also brings a wealth of commercial and legal expertise including ten years as a City solicitor, latterly with Allen & Overy LLP. The Board considers Mark to be a key person to drive the Board corporate governance process.

The role of the Company Secretary includes:

› Developing, implementing and sustaining high standards of corporate governance

› Supporting the Executive Chairman and other Board members as necessary

› Advising the Board on legislation, regulation and corporate governance developments which impact the Group, and maintaining the Group's Corporate Governance Manual

› Communicating with shareholders and keeping the Board informed of shareholder opinions

› Ensuring compliance with statutory and regulatory governance requirements

Appointment and retirement of Directors

The Directors may from time to time appoint one or more Directors to the Board. The Board may appoint any person it considers appropriate to be a Director.

Under the Articles of Association (the "Articles") any such Director shall hold office only until the next AGM and shall then be eligible for election. In addition, a Director may at any AGM retire from office and stand for re-election. In line with the Code, all Directors will stand for annual re-election at the 2015 AGM and thereafter.

Committees

Committees of the Board

As envisaged by the Corporate Governance Code, the Board has established the following Committees: Audit Committee; Nomination Committee; Remuneration Committee; and Risk Committee each with formally delegated duties and responsibilities and written terms of references available on www.theaapl.com. From time to time, separate Committees may be set up by the Board to consider specific issues, if the need arises.

Audit Committee

The Audit Committee assists the Board in discharging its responsibilities with regard to financial reporting, external and internal audits and controls, including reviewing the Company's annual financial information, reviewing and monitoring the extent of the non-audit work undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of the Company's internal audit activities, internal controls and risk management systems. The ultimate responsibility for reviewing and approving the Annual Report and Accounts and the half-yearly reports remains with the Board.

+ Further details on the work of the Audit Committee can be found in the Audit Committee Report on p46 > to p49 >

Nomination Committee

The Nomination Committee assists the Board in discharging its responsibilities relating to the composition and makeup of the Board. The Nomination Committee is responsible for evaluating the balance of skills, experience, independence and knowledge on the Board, the size, structure and composition of the Board, retirements and appointments of additional and replacement Directors and will make appropriate recommendations to the Board on such matters. The Nomination Committee also considers succession planning, taking into account the skills and expertise that will be needed on the Board in the future.

+ Further details on the Nomination Committee can be found in the Nomination Committee Report on p50 > to p51 >

Risk Committee

The Risk Committee assists the Board with monitoring and evaluating Group risks and oversight of the establishment of internal controls working closely with the Executive Risk and Compliance Committee. Risks are identified and monitored by a Group-wide risk register.

Recommendations to effectively reduce the potential impact of risks are made by the Risk Committee to the Board of Directors where ultimate responsibility for risk management lies.

The Risk Committee is concerned with the business of the entire AA Group and its authority extends to all relevant matters relating to the Company and its business units and subsidiaries.

+ Further information on the work of the Risk Committee can be found in the Risk Committee Report on p52 > to p53 >

Remuneration Committee

The Remuneration Committee assists the Board in determining its responsibilities in relation to remuneration, including making recommendations to the Board on the Company's policy on executive remuneration, determining the individual remuneration and benefits package of each of the Executive Directors and recommending and monitoring the remuneration of senior management below Board level.

+ Further information on the Remuneration Committee can be found in the Directors' Remuneration Report on p54 > to p66 >

Relations with shareholders

The Executive Chairman and the Chief Financial Officer carry out extensive engagement with analysts, institutional shareholders and potential shareholders to ensure that there is a strong relationship and to understand their views on material issues relating to the business. Feedback on all such meetings is provided to the Board in summary form, together with independent feedback from investors sought by the Company's broker. All brokers' notes are circulated to the entire Board in order that the Board maintains an understanding of market perceptions of the Company.

Group executive team

The Board delegates the day-to-day management of the Group's operations to deliver the Group's strategy to the Group executive team supported by divisional managing directors.

The business areas are Roadside Assistance, Insurance Services, Driving Services and Ireland each led by managing directors. The IT Director will also be part of the Group executive team when they join and in the meantime IT is led, and represented on the team, by an experienced consultant.

Overview

The Group executive team was set up during the course of the period under review to give the Group strategic focus and coordinate the work of the business areas.

Members

In addition to the three Executive Directors, the members of the Group executive team are:

Mike Lloyd	Commercial Director
Janet Connor	Managing Director Insurance Services
Olly Kunc	Managing Director Roadside Operations
Kirsty Ross	Membership Services Director
Mark Huggins	Business Transformation Director
Jim Kirkwood	Managing Director Driving Services
Roger Williams	Director Business Services, Fleet
Richard Jeffcoat	Director Business Services, Manufacturer
Brendan Nevin	Managing Director– AA Ireland
Helen Hancock	Human Resources Director
Edmund King	President of the AA
Deb Hearn	Claims Manager
Mehboob Neky	IT Transformation Director
Mark Millar	Company Secretary and General Counsel

The Board is kept up to date with developments in the business, including the work of the leadership teams, through the Executive Chairman and Chief Financial Officer's monthly reports, which are discussed in detail at each Board meeting. The Group executive team had strategy away-day meetings before the plc Board two-day strategy session, which some of them attended to present items. The Group executive team also meets individually with the Non-Executive Directors to discuss matters which are specific to their area on a less formal basis.

Compliance with the UK Corporate Governance Code continued

Board induction and professional development

When newly appointed, each Director receives a tailored induction pack and programme which are designed to familiarise the Director with the AA and its business as a whole as quickly as possible. They ensure that the new Directors have the necessary knowledge and understanding of the Group and its activities, as well as other relevant training as a plc Director to ensure they can fulfil their responsibilities. The programme will usually include an overview of the business model and the Board processes, meetings with the executive management teams, senior managers and briefings on key legal, regulatory, governance and compliance matters.

The Executive Chairman, assisted by the Company Secretary, regularly discusses any development or training needs with individual Directors. The Board recognises the importance of on-going training and education, particularly regarding new laws and regulations which are relevant to the Group. Such training or education is typically provided and kept under review by the Company Secretary, who is responsible for Director inductions and the on-going training of Directors.

At IPO the Company engaged with its solicitors and registrar to provide training on directors' statutory duties and responsibilities under the 2006 Act as well as their duties and responsibilities under the Listing Rules of the London Stock Exchange. These training programmes have also been shared, as appropriate, with the executive management teams to ensure that there is the necessary knowledge and support right across senior management in the AA.

Non-Executive Directors are encouraged to visit AA sites during the year in order to gain further insight into the business and in 2015 Board meetings will be held in other AA offices.

Professional advice

All Directors have access to the services of the Company Secretary and may take independent professional advice at the Company's expense. The Company Secretary reports to the Executive Chairman in respect of his core duties to the Board. The removal of the Company Secretary is a matter specifically reserved for decision of the Board.

Any questions shareholders may have on corporate governance matters, policies or procedures should be addressed to the Company Secretary at investor.relations@theAA.com.

Directors' indemnities

The Company maintains directors' and officers' liability insurance, which gives appropriate cover for legal action brought against its Directors. The Company has also granted indemnities to each of its Directors and the Company Secretary to the extent permitted by law. Qualifying third-party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during the year ended 31 January 2015 and remain in force, in relation to certain losses and liabilities which the Directors (or Company Secretary) may incur to third parties in the course of acting as Directors or Company Secretary or employees of the Company or any associated company.

Balance of Board members

Diversity

The Company has established a Board with a balanced diversity of skills, experience and backgrounds to help deliver its strategic goals.

In terms of gender diversity, between 26 June 2014 and 31 January 2015 one of the five Non-Executive Directors on the Board was female. Currently all four Non-Executive Directors are male. Following the resignation of Margaret Young, the Nomination Committee has commenced its search for a replacement Non-Executive Director.

The Group is committed to recruit and develop the very best people from the widest pool of talent, regardless of gender, colour, ethnic or national origin, disability, age, marital status, sexual orientation or religion, including for the Board.

The policy of the Board on recruitment is always to seek to appoint the best candidate to each role. However, the Board seeks to monitor and ensure a good balance of male and female members on its leadership teams and the Board.

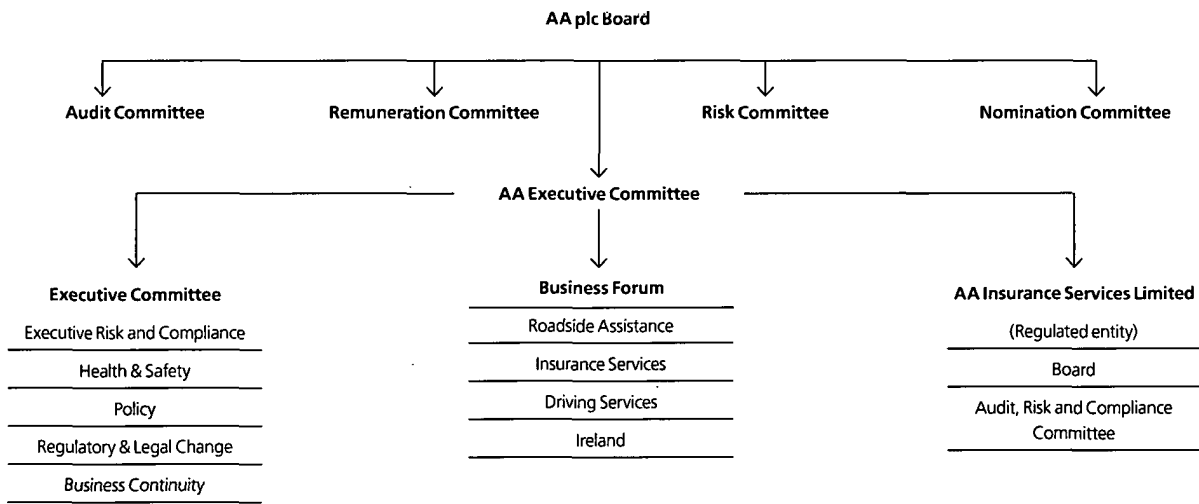
Governance structures

Decision making

Our governance structure aims to enable appropriate, effective decision making with clear accountabilities and sets out how the business is managed and operated at all levels and across all business areas. It aims to ensure that the risk profile of the business reflects the strategic objectives of the business, with the ultimate aim of protecting the business from reputational or operational damage. It dovetails with the governance structures of the regulated subsidiaries in the Group.

Matters requiring Board and Committee approval are generally the subject of a proposal by one or more of the Executive Directors or the Company Secretary and are submitted to the Board, together with supporting documentation, as part of the Board or Committee papers. At each Board meeting, the Board pack includes an update from the Executive Chairman, Chief Financial Officer, and contains financial results and other functional updates. There are presentations on the Company's operations and regular discussions on strategy, marketing, shareholder matters, employee engagement and social and governance matters.

Governance structure



Audit Committee Report

The purpose of the Audit Committee is to support the Board in fulfilling its responsibilities in reviewing the effectiveness of the Company's **financial reporting, internal controls and risk management.**

Andrew Miller
Audit Committee Chairman

Audit Committee Report

As part of this role, the Committee provides advice to the Board on whether the Annual Report and Accounts, when taken as a whole is fair, balanced and understandable and provides all the necessary information for shareholders to assess the Company's performance, business and strategy.

This is the first Audit Committee Report for the Company as a public company and as such we have started on many changes to our corporate reporting. In this first report of the Committee, we provide an overview of what the Committee has done during the year.

Furthermore, we provide the Committee's opinion on the Annual Report when viewed as a whole, including how it has assessed the narrative reporting in the front of the report to ensure that the messages are conveyed accurately and reflect the financial statements.

Membership and attendance during the year

Name of Member	Date appointed to Committee			% of possible meetings attended
		A	B	
Andrew Miller (Chairman) ¹	26 June 2014	2	3	67%
Margaret Young ²	26 June 2014	3	3	100%
John Leach	26 June 2014	3	3	100%
Andrew Blowers ³	13 November 2014	0	1	0%

A = Number of meetings the Member attended.

B = Maximum number of meetings the Member could have attended.

- 1 Andrew Miller was unable to attend the December committee meeting due to a prior engagement but read the papers and provided comments in advance.
- 2 Margaret Young resigned on 25 February 2015
- 3 Andrew Blowers was appointed to the committee on 13 November 2014 but was unable to attend the December committee meeting due to a prior engagement but read the papers and provided comments in advance.

Margaret Young was appointed chairperson of the Audit Committee on its inception at the Admission of the Company's shares on the London Stock Exchange on 26 June 2014. After leading the Audit Committee through the first year of the Company as a public company, Margaret resigned from her directorship of AA plc on 25 February 2015.

I have also been a member of the Committee since Admission and was appointed chairman of the Committee on 25 February 2015 following Margaret's resignation.

The Executive Chairman, the Chief Financial Officer, and the General Counsel and Company Secretary attend meetings of the Audit Committee only by invitation from the chairman. Other senior executives attend as required to provide information on matters being discussed which fall into their area of responsibility. The external auditors, Ernst & Young LLP, also attend each meeting.

Key issues considered by the Audit Committee

During 2014/15 the Committee:

- › Adopted its terms of reference
- › Reviewed the effectiveness, objectivity and independence of Ernst & Young LLP and recommended that they remain as the Company's statutory auditor
- › Conducted a comprehensive review of internal audit processes and identified areas for improved information flow
- › Approved the external audit engagement letter and management representation letter
- › Considered the internal audit charter
- › Reviewed and approved the Whistleblowing Policy
- › Adopted a non-audit services policy
- › Adopted the employment of ex-audit staff policy
- › Reviewed and recommended the interim results to the Board
- › Reviewed and recommended the audited interim results included with the premium listing announcement
- › Considered and approved Q3 results and bondholder results
- › Considered the process for 2015 year end accounts
- › Discussed internal financial controls, changes in accounting policies and impact on our financial statements, with specific focus on the significant issues and matters of judgement

What is the action plan for 2015/16?

The Audit Committee's performance will be reviewed each year within the framework of the wider Board effectiveness review. Areas of improvement will be highlighted, discussed and debated by the Committee, and included as part of the action plan for the coming year.

Looking ahead, the Committee will remain focused on the audit, assurance and risk process within the business, and maintain its oversight of financial and other regulatory requirements. The action plan for 2015/16 will focus on:

- › Ensuring Ernst & Young LLP's recommendations on financial reporting are addressed
- › Review and recommendation of statutory and interim results
- › Approval of the Group's Treasury Policy
- › The recommendations identified through the external auditor effectiveness review
- › Assurance plan, design and scope, with particular focus on key strategic priorities
- › Specific business presentations relating to risks within the Group risk profile

Committee updates

Detailed updates from the business are now fully embedded as fixed agenda items for each Committee meeting, with one or more areas represented. Business updates are planned on a rolling 12-month basis and reviewed at every meeting. This year's business insights included:

Integrated controls framework

- › Updates on the status of the financial control environment following a review by Ernst & Young LLP
- › Discussions on standardisation, integration and automation of the system and procedures
- › Updates on the areas identified to have opportunities for improvement
- › Discussions on opportunities to accelerate standardisation, integration and automation, and any challenges presented by the current business change projects under way

External auditors

The Committee manages the relationship with the Group's external auditors on behalf of the Board. The Committee considers annually the scope, fee, performance and independence of the external auditor as well as whether a formal tender process is required.

Effectiveness, tenure and independence of the external auditor

The Board considers it of prime importance that the external auditors remain independent and objective and as a safeguard against this being compromised the Committee implemented and monitored a policy on the independence of external auditors.

The Audit Committee noted that Ernst & Young LLP had been the Auditor since the 31 January 2008 audit and during the year the Committee considered audit rotation and tender. The Company is not obliged to tender for audit services until 2024 (ten years from Admission) but the Company intends to consider tendering its audit work annually until this date.

The Committee believes the independence and objectivity of the external auditor and the effectiveness of the audit process are safeguarded and remain strong. However, the AA actively supports audit partner rotation and during the year John Headley became audit partner.

2014/15 was an abnormal year for audit and non-audit work. In addition to the work undertaken in connection with the IPO, Ernst & Young undertook a statutory audit of the interim results in connection with the Premium Listing Application made in December 2014. These projects had a disproportionate impact on the balance between audit and non-audit fees during the year.

However, the Committee considered Ernst & Young LLP's role as auditor and concluded that Ernst & Young LLP continue to maintain independence and objectivity of the audit process.

As a result of this process, the Committee believes the independence, effectiveness and objectivity of Ernst & Young LLP as the external auditor and the audit process are safeguarded and remain strong.

The Committee will recommend at the 2015 AGM that Ernst & Young LLP be reappointed as the Company's statutory auditor.

Audit Committee Report continued

Non-audit fees

The Committee is very mindful of engaging the statutory auditor for non-audit services. A robust auditor engagement policy is in place and adhered to. During the year the Statutory Auditor was appointed in respect of two non-recurring projects that required significant work: the IPO and the non-statutory audit of the interim results in connection with the premium listing (see note 31). As a result, non-audit fees for the financial year were high. This will also apply in the following year due to the refinancing and placing and open offer to be announced on 25 March 2015. However, the Committee is committed to maintaining non-audit fees at a lower level at the earliest opportunity. Equally, the Committee is mindful that non-audit fees should be kept to a minimum, therefore all further requests for Ernst & Young LLP to undertake non-audit work during 2015/16 will be put to the Committee for approval, regardless of size.

Internal controls

The Audit Committee's role is to review the Group's overall effectiveness with regard to:

- › The effectiveness of the Group's financial controls and internal control systems, including the financial, operational and compliance risk management systems, by approving the Group's internal audit plan and by reviewing the external auditor's scope of work and reports; and
- › The management of risk by undertaking a risk assessment process and creating an internal audit report on the process.

Additionally, the Audit Committee identifies those actions that need to be undertaken in order to remedy any risk or control failings that have been identified within the Group and manage any critical risks that may arise.

The Audit Committee has completed its review of the Group's systems of internal controls and their effectiveness for the year 2014/15 and has done so in accordance with the requirements of the revised Turnbull Guidance on Internal Control, as published by the FRC. The Audit Committee has identified that there are no significant failings or weaknesses identified during the year 2014/15. Where any areas of improvement were identified, the Committee ensured that the relevant processes have been put in place in order to ensure that the necessary actions are undertaken and on-going progress in these areas is monitored.

In the Audit Committee's opinion the Group has adopted acceptable and appropriate accounting policies and made appropriate estimates and judgements as and where necessary. The Committee also believes that this Annual Report and Accounts provides the information necessary for the shareholders to make an assessment as to the Group's performance, business model and on-going strategy.

Details on our Risk Management can be found on pages 30 to 31 and in our Risk Committee Report on pages 52 to 53. It should be noted that the Group's risk management systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and they can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group's internal control and risk management systems ensure the accuracy and reliability of financial reporting and the key features of those systems include:

- › Defined lines of accountability of delegation of authority;
- › Policies and procedures that cover financial planning and reporting;
- › Preparing consolidated accounts;
- › Capital expenditure;
- › Project governance and information security; and
- › The Group's Code of Ethics and Behaviour.

Significant issues

The Audit Committee has assessed whether suitable accounting policies have been adopted and whether management have made appropriate judgements and estimates.

Throughout the year the finance team has worked closely with Ernst & Young LLP to ensure that the business is transparent and provides the required level of disclosure regarding the significant issues considered by the Committee in relation to the financial statements, as well as how these issues were addressed whilst being mindful of matters that may be business sensitive.

The main areas of judgement that have been considered by the Committee to ensure that appropriate rigour has been applied are as follows:

Revenue recognition

- › The accounting policies for revenue recognition prepared by management have been presented to the Committee which has concluded that they remain consistent and appropriate. The Committee has reviewed management's assessment of the internal control framework over revenue. This assessment has highlighted some issues with the initial revenue recognition of Roadside Membership subscriptions by the membership database as well as the additional controls that management has put in place to identify and correct for these issues. The Committee notes that the current IT transformation plans include the replacement of the membership database which will improve the controls over revenue recognition in this area. The Committee therefore agrees with management's assessment that the internal controls have remained consistent and effective during the year.

Pension accounting

- › The Group's defined benefit pension scheme is a significant net liability on the Group's balance sheet (see note 25) and the value of the scheme will fluctuate due to changes in the underlying assumptions. The main assumptions which drive these fluctuations are forecast bond yield rates and the forecast inflation rate. The Committee has considered both the process that management undertook to finalise the assumptions and how these assumptions benchmark against the market. The Committee has concluded that the assumptions are appropriate and the overall valuation of the net liability is appropriately balanced.

Borrowings and financial instruments

› The Group's borrowings are a significant liability on the Group's balance sheet (see note 20). The Group's accounting policy for recognising borrowings at fair value less debt issue fees at initial recognition is relatively straightforward. The Group also has a number of financial instruments related to the borrowings including interest rate swaps and penalties for early repayment that have been treated as an embedded derivative. The accounting and valuation of these instruments are governed by IAS 39 'Financial Instruments' and can be complex. The Group is required to state these instruments at fair value in the balance sheet. The valuation of penalties for early repayment has been assessed as not material to the financial statements and therefore no adjustment has been made. Interest rate swaps have been valued at fair value and where they qualify for hedge accounting under IAS 39, any changes in valuation are recognised in the statement of comprehensive income. All other changes in valuation, including those arising upon the repayment of the Senior Term Facility in May 2014 have been recognised in the income statement. The committee has reviewed the methodology used in these valuations and the accounting for borrowings and financial instruments and has concluded that the accounting treatment is appropriate.

Other financial reporting matters

Presentation of financial statements

The Committee has reviewed the presentation of the financial statements, in particular, the presentation of non-GAAP measures such as Trading EBITDA which is the Group's primary measure of segment performance. Under the Group's accounting policies Trading EBITDA excludes items which would distort the measurement of the on-going performance of each segment. These excluded items are amortisation, depreciation, share-based payments, acquisition earn-out costs, exceptional items which are one-off in nature and items not allocated to a segment which principally relate to the difference between the cash contributions to the pension schemes for on-going service and the calculated annual service cost. The Committee has concluded that this presentation is appropriate.

Fair, balanced and understandable

The Committee discussed what information and level of debate and insight it would need in order to satisfy members that financial information was fair, balanced and understandable.

At the request of the Board, the Committee considered whether, in its opinion, the 2014/15 Annual Report and Accounts is fair, balanced and understandable and whether it provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

The Committee was provided with a draft copy of the Annual Report early in the drafting process in order to assess the broad direction and key messages being communicated. The Committee received further drafts prior to the meeting at which it would be requested to provide its final opinion.

When forming its opinion, the Committee reflected on the information it had received and its discussions throughout the year. In particular, the Committee considered:

Is the report fair?

- › Is the whole story presented clearly and articulately?
- › Are the key messages in the narrative reflected in the financial reporting?
- › Has any sensitive material been omitted?
- › Are the KPIs disclosed at an appropriate level based on the financial reporting and how the business measures performance?
- › Is the reporting on the business segments in the narrative reporting consistent with that used for the financial reporting in the financial statements?

Is the report balanced?

- › Is there consistency between the narrative reporting in the front and the financial reporting in the back of the report?
- › Do you get the same message when you read the two parts independently?
- › Are the statutory and adjusted measures explained clearly with appropriate priority and prominence?
- › Are the key judgements referred to in the narrative reporting and the significant issues reported in this Audit Committee Report consistent with the disclosure of key estimation uncertainties and critical judgements set out in the financial statements? How do these compare with the risks that Ernst & Young LLP is planning on including in their report?

Is the report understandable?

- › Is there a clear and understandable structure and presentation to the report?
- › Is the language clear and the layout easy to navigate with good linkage throughout in a manner that reflects the whole story?
- › Are the important messages highlighted appropriately throughout the document?

Following its review, the Committee was of the opinion that the 2014/15 Annual Report is representative of the year, is consistent with its understanding of the business and results and presents a fair, balanced and understandable overview, providing the necessary information for shareholders to assess the Group's performance, business model and strategy.

Andrew Miller
Audit Committee Chairman

Nomination Committee Report

The purpose of the Nomination Committee is to ensure that there is a **formal and transparent procedure** for the appointment of new Directors to the Board.

John Leach
Nomination Committee Chairman

Nomination Committee

The Nomination Committee was formed on the admission of AA plc shares to the London Stock Exchange on 26 June 2014. Bob Mackenzie was appointed the first chairman of the Committee pending the appointment of additional Non-Executive Directors. I was appointed chairman of the Committee on 13 November 2014.

This being the first year of the AA's public life, there has been considerable focus to establish a robust Board with the necessary skills, experience and diversity to drive the strategic objectives of the business. The Committee is responsible for leading this process and making recommendations to the Board.

The Committee will also lead the process of Board Evaluation which we are planning to instigate in 2015, our first full year as a public company.

Who is on our Nomination Committee

The Committee comprises the Chair, independent Non-Executive Directors and the Executive Chairman.

Terms of reference of the Committee are available to view at www.theaapl.com/investors/corporate-governance.aspx

Name of Member	Date appointed to Committee			% of possible
		A	B	meetings attended
John Leach (Chairman)	26 June 2014; Chair from 13 November 2014	2	2	100%
Andrew Blowers	13 November 2014	0	0	100%
Simon Breakwell	13 November 2014	0	0	100%
Bob Mackenzie	26 June 2014	2	2	100%
Margaret Young	26 June 2014 to 25 February 2015	2	2	100%

A = Number of meetings the Member attended.

B = Maximum number of meetings the Member could have attended.

In addition to the scheduled meetings, the Committee met with the Executive Chairman and the HR Director to undertake a succession review of senior management.

What has the Committee done during the year?

Although the Committee was only formed part way through the year, it has been active. During the year Chris Jansen resigned from the Board as Chief Executive Officer and the Committee ensured that there was an orderly transition and handover process before Chris left the AA on 31 August 2014. Following due consideration the Nomination Committee recommended to the Board that Bob Mackenzie lead the AA in his capacity as Executive Chairman.

Andy Boland also resigned from the Board as Chief Financial Officer and the Nomination Committee led the process that ensured a smooth transition and induction of Martin Clarke as his successor.

The other significant change to the composition of our Board and Committees this year was the addition of Simon Breakwell and Andrew Blowers, who joined the Board as Non-Executive Directors in September 2014. Simon Breakwell was subsequently appointed chairman of the Remuneration Committee and Andrew Blowers was subsequently appointed chairman of the Risk Committee of the Board.

Following those appointments, the Nomination Committee reviewed the composition of the Board having regard to independence and objectivity on the Board and in accordance with the UK Corporate Governance Code published in September 2012 and recommended my appointment as Senior Independent Non-Executive Director on 13 November 2014.

A further change up to the date of this report was the resignation of Margaret Young as a Non-Executive Director on 25 February 2015. Following a positive determination of recent and relevant financial experience by the Board, Andrew Miller assumed the role of Chairman of the Audit Committee and became a member of the Risk Committee.

In accordance with the powers delegated in the terms of reference, the Committee has commenced proceedings to appoint a replacement Non-Executive Director for Margaret Young.

Key issues reviewed by the Committee:

- › Review of balance of skill, experience, independence, diversity and knowledge on the Board
- › Succession planning for the outgoing Chief Executive, CFO and Executive Chairman
- › Planning for Board evaluation and review of succession planning
- › Review of Non-Executive Directors' other time commitments
- › Review of the skills and the independence of each of the independent Non-Executive Directors and recommending that each of them be elected or re-elected at the Company's first AGM to be held on 9 June 2015

Recruitment process

The recruitment processes undertaken for the appointment of Simon Breakwell and Andrew Blowers were formal, rigorous and transparent. Bob Mackenzie chaired the Committee during those appointments and for my appointment as Senior Independent Director as well as my appointment to the chairmanship of this Committee.

The Committee appointed executive search consultancies Korn Ferry and Lygon Group and the following process was undertaken for the above appointments:

- › A job specification was prepared against which potential candidates were considered
- › The Committee considered the candidates against the objective criteria set out in the profile, having due regard for the benefits of Board diversity and a mix of skills and experience
- › A shortlist of preferred candidates was selected from a list of candidates
- › The Committee appointed a sub-committee to have meetings with the shortlisted candidates
- › A preferred candidate recommendation was made by the Committee to the Board for consideration
- › The Board considered and unanimously approved the appointments

Korn Ferry and Lygon Group do not provide any other service to the AA.

Diversity

The AA recognises the merits of diversity, in its broadest sense, at Board level and throughout the Group and is committed to ensuring that this remains a central feature not just of the Board, but of our senior management team. The Board intends to review the policy to ensure that it continues to drive the benefits of a diverse Board and workforce across the business if the skills, experience and knowledge of the individuals are appropriate and in keeping with the business needs.

Our employment policies and practices reflect a culture where decisions are based on individual ability and potential in relation to the business needs. We are committed to ensuring individuals are treated in a non-discriminatory manner at all stages of their employment including recruitment and selection, reward, training, development, promotion and career development.

The Board and this Committee recognise and value the importance of diversity including gender and acknowledge the recommendations in the Davies Report and, where possible, seek to ensure an appropriate balance. Ratios of staff and management are published in the Corporate Responsibility Report on pages 32 to 34.

What is the action plan for 2015/16?

- › Recruiting a new Non-Executive Director following the resignation by Margaret Young on 25 February 2015
- › Undertake a full Board performance evaluation and look to implement any recommended changes
- › Continue to review succession plans for the Board and key roles across the business
- › Continue to identify future talent pipeline
- › Review development initiatives for Directors
- › Develop training and induction programme for Board and senior management

John Leach

Nomination Committee Chairman

Risk Committee Report

The successful **management of risk is essential** to enable the Group to deliver on its strategic priorities.

Andrew Blowers
Chairman of the Risk Committee

Risk Committee Report

Effective risk management is critical to the achievement of our strategic objectives and the long-term sustainable growth of our business and the Board is responsible for setting the Group's risk appetite and ensuring that appropriate risk management systems are in place.

As ultimate responsibility for risk management rests with the Board, a Risk Committee has been established to work alongside the Audit Committee to ensure the effective day-to-day management of risk is a priority.

The Risk Committee was established on 13 November 2014 and the Board appointed me as Chair of the Committee with effect from 13 November 2014. The Committee comprises three independent Non-Executive Directors namely, John Leach, Senior Independent Director, Andrew Miller, who also chairs the Audit Committee (replacing Margaret Young) and myself. We work closely with the Executive Risk and Compliance Committee, Compliance Officer and Chief Risk Manager and invite executive members of the Group to attend or present as appropriate. Attendance of Committee members who served during the year is as shown in the table below.

Membership and attendance during the year

Name of Member	Date appointed to Committee			% of possible
		A	B	meetings attended
Andrew Blowers (Chairman)	13 November 2014	1	1	100%
John Leach	13 November 2014	1	1	100%
Margaret Young	13 November 2014 to 25 February 2015	1	1	100%
Andrew Miller	25 February 2015	0	0	100%

A = Number of meetings the Member attended.

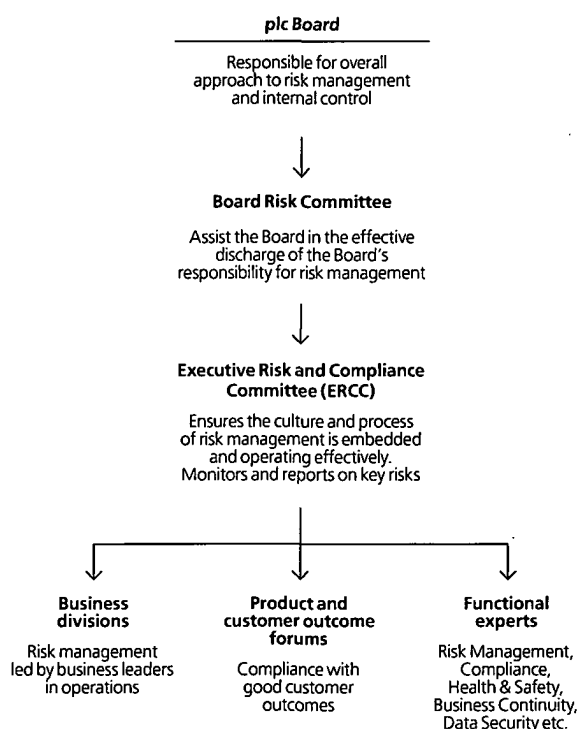
B = Maximum number of meetings the Member could have attended.

The Risk Committee plays a pivotal role in the governance of risks, overseeing the Executive Risk and Compliance Committee (ERCC). The ERCC is the executive body, made up of the senior executives and functional experts in the business, whose role is to implement the Risk Management Policy and report to the Risk Committee on the management of risks and the effectiveness of the risk management culture and process.

The Group operates a business-wide database system to encourage business units to consider the adequacy of controls and actions planned to mitigate those risks. Our businesses are responsible for ensuring that an effective risk and control environment is maintained as part of day-to-day operations. These frontline controls are regularly updated to respond to the Group's changing risk profile. Central compliance functions monitor adherence to the procedures set by the Committee, provide guidance to the businesses on their application, and monitor quality of products and customer service.

We recognise that it is important that risks are identified, assessed and prioritised in a timely manner whilst ensuring that appropriate controls and mitigation strategies are in place. Each identified risk has a business owner who manages and reports on that particular risk to the relevant leadership team and the Executive Risk and Compliance Committee. The teams then assist the Committee in the review of the risk management processes and take responsibility for designing the appropriate internal control systems and policies with each business owner.

Risk Governance



The most material risks are then reported to the Committee so that it has a clear understanding of our aggregate risk profile and can ensure that control processes are in place for the monitoring and management of significant risks. At each of the Risk Committee meetings a risk update is received which provides an assessment of the key risks facing the Group and the adequacy of the associated controls.

Risk identification

The Group-wide risk assessment requires business units to formally review business risks each quarter. This approach to identification, analysis and assessment of risks ensures responsibility so that they are managed, controlled and monitored. A broad spectrum of risks are considered through this process including those relating to strategy, operational performance, finance, product engineering and technology, business reputation, human resources, health and safety and the environment. The causes and the consequences of each risk are considered and, where appropriate, linked to strategic and operational objectives.

Manage and mitigate

Management controls designed to monitor and mitigate risks are documented. Risk owners are assigned to each risk.

Assessment

The Group-wide risk team and database ensure a consistent set of definitions and a common approach to risk evaluation with specific reference to likelihood and impact.

Respond

The risk response is based upon the assessment of potential risk exposure and the level of accepted tolerance. The response reflects whether we accept the risk on the basis of its assessed level of exposure and mitigating controls currently in place, where possible, or reduce the risk through additional mitigation to bring it in line with required levels of tolerance.

Monitor

The output from the Group-wide risk assessment tool process is regularly reviewed together with live tracking of delivery of planned improvement actions.

Risk appetite

The duties of the Risk Committee include advising the Board on the Group's overall risk appetite, tolerance and strategy.

The Risk Committee and the Board have reviewed and approved a revised risk appetite since we became a listed public company.

Principal risks and uncertainties

As with any business, we face risks and uncertainties on a daily basis. It is the effective management of these that places us in a better position to be able to achieve our strategic objectives and to embrace opportunities as they arise. The Board has considered carefully the nature and extent of the significant risks it is willing to take in achieving the Group's strategic objectives and delivering a satisfactory return for shareholders. Set out on pages 30 and 31 are the main risks the Board considers to be of most significance to the Group in terms of preventing or restricting execution of our strategy, with the mitigating activities that we have put in place to try to prevent such risk materialising. We recognise that other risks are still present and seek to ensure that they are managed accordingly.

It is recognised that the Group is exposed to a number of risks, wider than those listed. However, a conscious effort has been made to disclose those of most concern to the business at this moment in time and those that have been the subject of debate at recent Board or Risk Committee meetings.

Next steps

The Committee is taking steps to enhance the risk management process given the Company's ambitious plans for business transformation and its new status as a premium listed company. In that regard it has, with the plc Board, agreed a new Risk Management Policy. It is now pursuing a plan of improvements for 2015 taking into account the FRC September 2014 Guidance.

Andrew Blowers

Chairman of the Risk Committee

Directors' Remuneration Report

Simon Breakwell
Chairman of the Remuneration Committee

Dear shareholder,

On behalf of the Board, I am pleased to present our first Directors' Remuneration Report since the management buy-in (MBI) and IPO in June 2014 and our subsequent move to the premium list of the London Stock Exchange in January 2015.

Over the past year, the Company has undergone significant change. The circumstances surrounding our listing and our ongoing transformation are both unique. The IPO was delivered under an accelerated timetable led by an MBI team and backed by many leading institutional investors. Since listing the AA has seen a significant increase in share price and became a constituent of the FTSE 250 index in March 2015. The Company has clear growth aspirations over the next five years, and the Committee has considered remuneration in this unique context.

The Committee's activities during the year can be split into two categories. First, the Committee have resolved certain legacy matters which were outstanding from Admission. Secondly, the Committee have given further consideration to how remuneration should be structured in the future.

IPO legacy matters

The main elements of the Executive Directors' pay arrangements were disclosed in the IPO prospectus. However, due to the accelerated nature of the IPO, some of the key decisions regarding the detail of arrangements were not finalised at this time. Therefore, part of the Committee's activity during the year has been to complete this process.

The Management Value Participation shares are a five year structure, implemented at the time of Admission, as disclosed to shareholders in the Prospectus. Under this structure, value only accrues to participants if total shareholder return from the date of Admission to the vesting dates exceeds 12% per annum. Over five years, this would equate to growth of 76%.

At the time of Admission, there was a degree of uncertainty in relation to the roles and responsibilities of the senior management team. Therefore the full allocation of shares was deferred until there was greater clarity on senior management roles. The Committee has now completed this review, and allocations have now been finalised and will be awarded in due course. Further details of the allocations to Executive Directors are set out in the Annual Report on Remuneration.

Once the MVP shares are fully allotted, there is currently no intention to grant further awards to any Executive Director under this plan.

Remuneration in the future

Due to the accelerated timetable for the IPO, the Committee did not have the opportunity to undertake a full review of the remuneration packages for Executive Directors in the lead up to Admission. Therefore in the Prospectus, shareholders were informed that the Committee intended to undertake a review of annual compensation to ensure it was in line with comparable listed company practices.

As part of this review, the Committee recognised that although the one-off MVP shares structure provided a clear focus on shareholder value creation following IPO, this was not a conventional structure amongst FTSE 250 companies. Therefore, over time, the Committee intends to transition to more conventional arrangements.

The key outcomes of the Committee's review are as follows:

› Introduction of formal bonus structure for 2015/16

The 2015/16 bonus (capped at 120% of salary) will be subject to a combination of financial (60%), strategic (15%) and individual (25%) objectives. The 2015/16 bonus will also incorporate a profit-based underpin.

› Introduction of conventional Performance Share Plan

This plan looks beyond the legacy MVP shares, and provides a structure more aligned with FTSE 250 market practice. Although the Committee does not currently intend to make awards to the current Executive Directors, this new plan will be available to use for any new executive appointments in the future and for senior management.

› Look to move towards best practice

Bonuses in respect of 2015/16 will be subject to malus and clawback terms consistent with the UK Corporate Governance Code as will any awards granted under the new PSP rules.

In addition to the structural changes set out above, the Committee also reviewed the salary for Martin Clarke. As a result of the change in management structure, Martin Clarke assumed the role of Chief Financial Officer in addition to his operational responsibilities linked to delivering the transformation of the business. This resulted in a very significant expansion of his role. Taking into account the complexity of the CFO role in the context of the AA's transformation plans and refinancing proposals, the Committee determined that Mr Clarke's salary should be repositioned from £400,000 to £480,000. Bob Mackenzie's and Nick Hewitt's salary will remain unchanged.

Remuneration in respect of 2014/15

Given the unique nature of the transaction, a formal bonus structure was not in place for members of the MBI team in respect of 2014/15. Therefore for this transitional year only, the final outcome was based on the Committee's review of financial, strategic and individual performance during the year (including performance and contribution prior to Admission and the achievement of objectives identified during the IPO process).

The Committee noted that as well as delivering a successful IPO, the Company had achieved strong results, repaid £175m of the most expensive element within the Company's debt structure, and undertaken a thorough review of operations, including a successful reorganisation of the management team. Subsequently it was determined that bonuses for 2014/15 should be as follows: Bob Mackenzie – 80% of salary; Martin Clarke – 80% of salary; and Nick Hewitt – 27.3% of salary. The Committee are satisfied that these bonuses reflect performance in the year, especially in the context of the very strong performance since Admission.

DRR and AGM

At the forthcoming AGM, shareholders will be provided with three separate votes on remuneration matters:

1. The Remuneration Policy sets out our forward looking policy on pay for Directors, and will be put forward to shareholders for a binding vote at the 2015 AGM.
2. The Annual Report on Remuneration details payments made to Directors during the last year, and how we will apply our policy in 2015/16. Shareholders will be provided with an advisory vote on this report at the AGM.
3. Approval of new 2015 Performance Share Plan to facilitate share awards in future years.

The Committee have spent considerable time considering an appropriate approach taking into account the unique circumstances of the IPO and arrangements implemented at that time. The Committee is of the view that the approach set out in this Remuneration Report will support the Company's continued success as well providing a future framework that enables a transition towards prevailing norms of market practice, incorporating best practices.

I hope that you will find the report clear and helpful in understanding our remuneration arrangements and that you will support the three resolutions relating to remuneration at the forthcoming Annual General Meeting to be held on 9 June 2015.

Simon Breakwell

Chairman of the Remuneration Committee

Directors' Remuneration Report continued

Directors' Remuneration Policy

The following sections set out our Directors' Remuneration Policy (the "Policy"). This Policy will be presented to shareholders for approval at the 2015 Annual General Meeting, and will take immediate effect once approved.

Policy table

Base salary

Purpose and link to strategy	To attract and retain executives of the calibre required to deliver the Group's strategy.
Operation	<p>When reviewing salary levels the Committee takes into account a range of factors including:</p> <ul style="list-style-type: none"> › The individual's skills, experience and performance › The size and scope of the individual's responsibilities › Market rate for the role › Pay and conditions elsewhere in the Group <p>Salary levels are typically reviewed annually by the Committee.</p>
Maximum opportunity	<p>There is no overall maximum for salary opportunity or increases. Individual salaries are set based on the factors set out above.</p> <p>The Executive Director salaries as at 1 February 2015 are:</p> <ul style="list-style-type: none"> › Bob Mackenzie: £750,000 › Martin Clarke: £480,000 › Nick Hewitt: £400,000
Performance metrics	None.

Benefits

Purpose and link to strategy	To provide competitive benefit arrangements appropriate for the role.
Operation	<p>A range of benefits may be provided to Executive Directors including, but not limited to, car related benefits, life cover and private medical insurance.</p> <p>From time to time the Committee may review the benefits provided for individual roles. Additional benefits may be provided where the Committee considers this appropriate (e.g. on relocation).</p> <p>Directors may also participate in any all-employee share plans (including the Company's Share Incentive Plan) operated by the Company from time to time on the same terms as other employees.</p>
Maximum opportunity	<p>There is no overall maximum for benefits.</p> <p>Participation in any HMRC-approved all-employee share plan is limited to the maximum award levels permitted by the relevant legislation.</p>
Performance metrics	None.

Retirement benefits

Purpose and link to strategy	To provide a competitive level of retirement benefits appropriate for the role.
Operation	<p>Executive Directors are eligible to participate in the AA UK pension scheme (or any other similar pension plan operated by the Group from time to time) or receive a cash allowance in lieu of participation.</p> <p>For new hires the nature and value of any retirement benefit provided will be, in the Committee's opinion, reasonable in the context of market practice for comparable roles and take account of both the individual's circumstances and the cost to the Company.</p>
Maximum opportunity	<p>The maximum benefit is 25% of salary.</p> <p>For the financial year commencing 1 February 2015 the personal pension or cash allowances for current Directors will be 11.7% of salary.</p>
Performance metrics	None.

Annual bonus

Purpose and link to strategy	To incentivise the delivery of annual financial, strategic and operational objectives, which are selected to support our business strategy.
Operation	Performance metrics and targets are set annually to ensure they remain aligned with financial and strategic goals. Bonus levels are determined by the Committee after the year-end, based on an assessment of performance.
Maximum opportunity	The maximum annual opportunity is 120% of salary.
Performance metrics	Performance targets will be determined by the Committee at the beginning of each performance period, and may comprise of a combination of financial, strategic, operational and individual targets appropriate for the role. At least 50% of the award will be subject to financial measures. The threshold payout for the minimum level of performance will be determined by the Committee taking into account the nature of the target. There will normally be scaled payouts for performance between the minimum and maximum thresholds.
Recovery provisions	Malus and clawback provisions have been introduced for the 2015/16 bonus. Both malus and clawback will apply to future awards.

2015 Performance Share Plan

Purpose and link to strategy	To reward for delivery of performance targets linked to long-term strategic objectives and to provide alignment with the interests of shareholders. Over time, the Committee intends to transition to an incentive structure which is more conventional for the UK listed environment. The Performance Share Plan ("PSP") is intended to provide the Committee with the facility to make annual long-term share awards subject to performance measures aligned to the success of the Company. It is anticipated that the PSP will be used for new Executive Directors.
Operation	The PSP will be presented to shareholders for approval at the 2015 AGM. The Committee does not currently intend to make awards to the current Executive Directors under this plan during 2015/16. Awards of conditional shares (or equivalent) will vest dependent on performance measured over a period of at least three years. The Committee will review the metrics, targets and weightings prior to grant to ensure they are aligned with the long-term strategic goals. Dividends (or equivalents, including re-investment) may accrue in respect of any shares that vest.
Maximum opportunity	The maximum face value of award in respect of any financial year is 200% of salary. The level of payout for the threshold performance hurdle set would normally not exceed 25% of the maximum opportunity. Full vesting will require achievement of the stretch objectives set. There will normally be scaled vesting for performance between the threshold and maximum performance levels.
Performance condition	As the PSP is not for immediate use, the performance conditions have not yet been determined. Prior to granting awards, the Committee will determine the performance metrics, weightings and targets to ensure they are aligned with the corporate strategy. The Committee would seek to engage appropriately with its major shareholders when making the first awards to Executive Directors under this plan.
Recovery provisions	Both malus and clawback provisions will apply to any awards granted to Executive Directors under this plan.

Directors' Remuneration Report continued

Legacy arrangement – MVP shares on Admission

The Management Value Participation Shares ("MVP shares") were implemented at Admission. Once the MVP shares are fully allocated (and subject to reallocation in exceptional circumstances) the Committee does not intend to allocate any further MVP shares.

MVP shares

Purpose and link to strategy	To link reward with Company performance and long-term shareholder value creation following Admission. Awards are share-based to facilitate share ownership and further align the interests of participants and shareholders.
Operation	<p>The MVP shares are a one-off structure implemented prior to Admission.</p> <p>The MVP shares provide participation in the total shareholder return created over the first five years following Admission, provided a minimum hurdle rate is achieved.</p> <p>The arrangement takes the form of A shares, B shares and C shares in the Company with each class representing a third of the total number of MVP shares. Unless the Committee determines otherwise, each participant will hold an equal number of A, B and C shares.</p> <p>The A, B and C shares are convertible into ordinary shares in the Company or are redeemable following satisfaction of the relevant Performance Condition tested on the third, fourth and fifth anniversary of Admission respectively. If the Performance Condition is not met on the third or fourth anniversary (as relevant), but is satisfied on a subsequent measurement date (including the requirement for further growth in TSR for that additional period), the A and B shares will be convertible or redeemable as described above. Value per share is based on the aggregate value calculated by reference to the performance conditions divided by the aggregate number of shares allocated.</p> <p>In the event that the Performance Condition of any of the MVP shares has not been satisfied by the fifth anniversary of Admission, the Company will be able to acquire all of the MVP shares for £0.01 in aggregate. The same applies in the event that any holder has not required the Company to convert his MVP shares within the applicable timeframes.</p>
Maximum opportunity	<p>The maximum number of ordinary shares resulting from conversion of MVP shares will not in any 10 year period exceed 5% of the issued share capital (as calculated from time to time). Up to 60 million MVP shares may be allocated under this structure.</p> <p>The allocations of MVP shares is split into two tranches, 40% issued at Admission to current Executive Directors as follows:</p> <ul style="list-style-type: none"> › Bob Mackenzie: 22.4% › Martin Clarke: 8.8% › Nick Hewitt: 8.8% <p>The allocation of the remaining authorised MVP shares has been approved by the Committee for allotment in 2015/16.</p>
Performance Condition	<p>For all MVP shares, the Performance Condition is that the total shareholder return (TSR) per annum from Admission to the relevant measurement point is equal to or more than 12% (the Performance Condition).</p> <p>If the Performance Condition is met, the value of the MVP shares shall be:</p> <ul style="list-style-type: none"> › 5% of the TSR up to the Performance Condition; plus › 10% of the amount by which TSR exceeds the Performance Condition. <p>If the Performance Condition has been satisfied, the MVP shares may be converted into such number of ordinary shares at the average closing price of the share over the 10 business days prior to the relevant anniversary.</p>

Notes to the policy table

Further detailed provisions

The Committee may make any remuneration payments (including the vesting of incentives) and payments for loss of office notwithstanding that they are not in line with the Policy set out above, where the terms of that payment were agreed before this Policy came into effect; or at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in contemplation of the individual becoming a Director of the Company.

All incentive awards including MVP shares and PSP awards are subject to the terms of the relevant Articles of Association or plan rules under which awards are allocated or granted. The Committee may adjust or amend awards or shares in accordance with the provisions of the Articles of Association, plan rules and relevant scheme documentation (as applicable). This includes making adjustments to awards to reflect corporate events, such as a change in the Company's capital structure.

The Committee may adjust the calibration of performance measures and vesting outcomes, or substitute or amend any vesting condition (e.g. due to a significant acquisition or disposal) provided that the resulting condition is appropriate and not materially less difficult to satisfy.

In the event of a change of control of the Company, which results from an offer to shareholders, if the price offered delivers a TSR for the period from Admission to the change of control in excess of the Performance Condition then a holder of MVP shares has the right to require the Company to convert their MVP shares into such number of ordinary shares as represents the relevant proportion (based on the percentage of MVP shares as a proportion of the total number of MVP shares) of the aggregate value of the MVP shares. The Company (or, where the Company does not give notice to convert the shares by the given deadline, the holder of MVP shares) may elect to redeem, rather than convert the MVP shares. In the event of a winding up on or before the fifth anniversary of Admission, where the Performance Condition is met, holders of MVP shares will be entitled to receive a cash amount reflecting their proportion of the aggregate value of the MVP shares. Vesting of any awards granted under the PSP will normally take account of the relevant performance condition and the time elapsed. Alternatively PSP awards may be rolled over into shares of the acquiring company.

The Committee may make minor amendments to the remuneration policy to aid its operation or implementation without seeking shareholder approvals (e.g. for regulatory, exchange control, tax or administrative purposes).

Performance measures and targets

The performance measures for the annual bonus are chosen to provide an appropriate incentive for Executive Directors to meet financial, strategic, operational and personal goals for the year. This approach allows the Remuneration Committee to effectively reward performance against the key elements of Group strategy. The bonus targets are set by the Remuneration Committee each year to ensure that Executive Directors are appropriately focused on the key objectives for the next 12 months. Targets are set by reference to the Company's business plan and budget.

The performance conditions for the MVP shares were set to align with long-term value created for shareholders, and were discussed with shareholders prior to Admission.

The targets for any future PSP awards will be determined by the Committee prior to grant. The intention would be for the targets to be aligned with the long-term strategic objectives of the Company and its shareholders.

Non-Executive Director fees

MVP shares

Approach to setting remuneration

Fees are set at appropriate levels to ensure Non-Executive Directors are paid to reflect the individual responsibility taken. Fees are reviewed periodically.

When setting fee levels, consideration is given to a number of internal and external factors including responsibilities and market positioning.

Benefits appropriate to the role may be provided. Travel and other reasonable expenses (including fees incurred in obtaining professional advice in the furtherance of their duties and any associated taxes) incurred in the course of performing their duties may be paid by the Company or reimbursed to Non-Executive Directors.

Opportunity

The total fees paid to Non-Executive Directors will remain within the limit stated in the Articles of Association.

Individual fees reflect responsibility and time commitment. Additional fees may be paid for further responsibilities, such as chairmanship of committees, duties related to subsidiary boards, or other periods of increased activity.

Recruitment policy

The intention is that if an Executive Director is appointed in the medium to long term, he would be recruited under a conventional package comprising salary, benefits, annual bonus and PSP awards, with no participation in the legacy MVP shares.

Base salary would be set taking into account the principles set out in the policy table and may be set at a level higher or lower than the previous incumbent. A cash supplement may be paid for interim positions. Normally benefits will be consistent with benefits provided to existing Directors, however, additional benefits may be provided in certain circumstances (e.g. relocation allowance).

The Committee may, on appointing an Executive Director, need to 'buy out' remuneration arrangements forfeited on joining the Company. The form and value of any buyout would take into account the terms of the arrangements (e.g. form of award, performance conditions, timeframe) being forfeited. The overriding principle will be that any replacement buy-out awards will, in the opinion of the Committee, be no more valuable than the entitlement which has been forfeited.

The maximum level of variable pay would be determined taking into account the scale of the business at the time (for example whether the Company was a constituent of the FTSE 250 or the FTSE 100 index). For the purpose of this recruitment policy the maximum level of variable remuneration (i.e. short-term and long-term incentives) will not exceed 400% of salary per annum.

The Committee may determine that for the first year of appointment the annual bonus award will be subject to such conditions as it may determine.

Where an executive is appointed from within the Company, the normal policy of the Company is that any legacy arrangements would be honoured in line with their original terms and conditions. Similarly, if an Executive Director is appointed following the acquisition of or merger with another company, legacy terms and conditions would be honoured.

MVP shares are currently fully allocated and it is not intended (other than in exceptional circumstances) that these would form part of the remuneration arrangements for a newly appointed Executive Director.

In the event of the appointment of a new Non-Executive Director or Chairman, remuneration arrangements will be in line with the principles detailed in the relevant table above.

Service contracts and payments for loss of office

Notice period

The notice period for the current Executive Directors is 12 months. Service contracts for new Executive Directors will normally be limited to 12 months' notice. In limited circumstances the initial notice period for a new appointment may be longer than the Company's normal policy (up to a maximum of 18 months), with the notice period reducing down to 12 months over time.

Payments on cessation

The Company may terminate an Executive Director's service agreement at any time by making a payment in lieu of notice in respect of basic salary for the outstanding period of notice, together with accrued holiday entitlement.

Benefits (or a payment in lieu) may also be provided. This may include certain benefits in connection with termination, such as legal costs and the costs of meeting any settlement agreement.

Directors' Remuneration Report continued

The treatment of incentive awards in the event of cessation is determined by the relevant plan rules or the Articles of Association (in the case of the MVP shares) as summarised below.

Annual Bonus	In certain circumstances, an individual may receive a bonus for the period prior to cessation. The bonus amount may be pro-rated where departure occurs before the year-end.
MVP shares	<p>The treatment of MVP shares are set out in the Articles of Association.</p> <p>In respect of MVP shares allocated prior to Admission, where an individual ceases employment by reason of bankruptcy, disqualification from acting as a director, conviction of a serious criminal offence, breach of any non-compete undertaking, any act of gross misconduct or act which brings the Group into disrepute, or any other reason justifying summary dismissal, or where the individual subsequently takes action or makes comments which denigrate the Group or bring the Group into disrepute, the Company may acquire the individual's shares for a nominal value of £0.01. In other circumstances, the individual will retain their interest.</p> <p>In respect of subsequent MVP shares which are allocated, the Company will normally be able to acquire the individual's shares following cessation for a nominal value of £0.01, in the event that the individual is a bad leaver, and serve notice. To the extent permitted by the Articles of Association the Committee may determine that an individual is not a bad leaver. An individual will not be a bad leaver where cessation occurs as a result of death, permanent disability, redundancy, or the sale by the Group of the individual's employing business unit. An individual will be considered to be a bad leaver where he takes actions or makes comments which denigrate the Group or bring the Group into disrepute.</p>
PSP	<p>Under the plan rules, awards will lapse on cessation of employment unless the participant is a good leaver.</p> <p>Good leavers include an individual ceasing employment by reason of death, ill-health, injury, disability, the sale of the business or entity that employs him out of the Group, or for any other reason at the Remuneration Committee's discretion.</p> <p>Where an individual is considered by the Committee to be a good leaver, a participant's unvested award will usually continue until the normal vesting date (unless the Remuneration Committee determines that the Award should vest at an earlier date). In these circumstances awards will vest taking into account the extent to which any performance condition is satisfied and, unless the Remuneration Committee determines otherwise, the period of time that has elapsed from the date of grant.</p> <p>Any vested nil-cost options will normally be exercisable for up to six months from cessation and/or the point of vesting.</p>

All Non-Executive Directors are appointed in writing. The letters of appointment for the current Non-Executive Directors include a one month notice period (by either party) or no notice period if terminated by shareholders. The Company may include a notice period for new appointments of no more than three months for Non-Executive Directors and no more than twelve months for a Non-Executive Chairman.

Illustrations of application of remuneration policy

The following charts illustrate the different elements of the Executive Directors' remuneration under four different performance scenarios. The assumptions used are provided below the charts.

	Minimum	TSR – 10% p.a.	TSR – 12% p.a.	TSR – 15% p.a.
Fixed pay		Base salary for 2015/16		
		Value of pension benefit for 2015/16		
		Taxable value of benefits provided in 2014/15 (annualised)		
Annual bonus ¹	0% of salary	60% of salary	90% of salary	120% of salary
MVP shares ^{1,2}	Total allocations as set out in Annual Report on Remuneration			
	<10% per annum TSR	10% per annum TSR	12% per annum TSR	15% per annum TSR

¹ The actual value of the annual bonus and MVP shares will vary depending on actual performance and may, therefore, differ from the illustrations set out above.

² Based on the number of shares delivered at different levels of TSR performance, annualised over the five year term of award. The illustrations assume constant TSR growth over the period and growth from the market capitalisation at Admission. The value for the MVP shares is linked to the level of value created and is therefore not capped. In accordance with the requirements of the regulations, the charts exclude share price growth and potential dividends.

Remuneration in the wider group

The wider employee group participate in performance-based incentives. Throughout the Group, base salary and benefit levels are set taking into account prevailing market conditions. Differences between Executive Director pay policy and other employee pay reflect the seniority of the individuals, and the nature of responsibilities. The key difference in policy is that for Executive Directors a greater proportion of total remuneration is based on incentives. The Committee has oversight of incentive plans operated throughout the Group. Below Board long-term incentives align with the long-term interests of the business and where appropriate objectives may be tailored to individual business areas.

When setting the policy for the remuneration of the Executive Directors, the Committee has regard to the pay and employment conditions of employees within the Group. However, the Committee does not use comparison metrics or consult directly with employees when formulating the remuneration policy for Executive Directors. The Committee reviews salary increases and pay conditions within the business, to provide context for decisions in respect of Executive Directors.

Consideration of shareholder views

Prior to Admission the remuneration arrangements for senior executives were discussed with prospective shareholders. The framework for the remuneration package was set out in the Prospectus.

The Committee recognises that aspects of the Company's Remuneration Policy which were put in place prior to IPO, while aligned to shareholder value creation, are unusual in the context of the UK listed environment. The Committee considers the views of its shareholders and is mindful of evolving best practice in developing policies in the future and engaged with major shareholders and investor bodies following the year-end.

Annual Report on Remuneration

AA plc listed on the London Stock Exchange on 26 June 2014. This section of the Directors' Remuneration Report provides details of the remuneration paid to Directors during 2014/15 and details of how we intend to implement the Policy in the forthcoming financial year. Where information has been audited, this has been stated.

Single total figure of remuneration (audited)

Executive Directors

The tables below set out the total remuneration for the Executive Directors for the year ended 31 January 2015.

	Bob Mackenzie		Martin Clarke		Nick Hewitt		Andy Boland ¹		Chris Jansen ²	
	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000
Salary	448	–	239	–	239	–	320	263	358	50
Benefits	13	–	7	–	7	–	6	15	30	–
Retirement benefits	52	–	28	–	28	–	20	9	47	6
Annual bonus	600	–	320	–	109	–	–	157	–	–
Long-term incentives³	–	–	–	–	–	–	–	–	–	–
Sub-total	1,113	–	594	–	383	–	346	444	435	56
Payments on cessation	–	–	–	–	–	–	276	–	584	–
Other bonus⁴	–	–	–	–	–	–	–	1,800	–	–
Total	1,113	–	594	–	383	–	622	2,244	1,019	56

¹ It was announced on 28 August 2014 that Andy Boland would be stepping down as CFO and would leave the Board in due course. Andy Boland subsequently stepped down as CFO on 13 November 2014 and left the Board on 19 December 2014. The figures in this table represent his remuneration up to 19 December 2014.

² It was announced on 28 August 2014 that Chris Jansen would be stepping down as CEO and leaving the Board with immediate effect. The figures in this table represent his remuneration up to 28 August 2014.

³ As at 31 January 2015, the only long-term incentive is the MVP shares. As the performance conditions are not tested until June 2017, the performance conditions are considered to not be substantially complete by year end and therefore no amount is shown.

⁴ Other bonus payable related to the refinancing completed in July 2013.

Andrew Goodsell and Stuart Howard resigned from the Board on 20 June 2014. James Arnell, Robin Hooper and Philip Muelder were appointed to the Board on 15 May 2013 and resigned on 20 June 2014. The services of Andrew Goodsell and Stuart Howard were provided by Acromas Holdings Limited, James Arnell's services were provided by Charterhouse Capital Partners, Robin Hooper's services were provided by CVC Capital Partners and Phillip Muelder's services were provided by Permira advisors. None of these directors received any remuneration during the current or comparative year in respect of their services as directors of AA plc or its subsidiaries and no fees were charged to any Group company in respect of these services.

Directors' Remuneration Report continued

Additional notes to the table

Salary

On Admission the salary for the Executive Chairman was £750,000 and the salary for the Chief Financial Officer and Nick Hewitt was £400,000. Details of salary levels for 2015/16, are set out on page 64.

Benefits

The benefits consist of a car related benefit, private health insurance for director and family and life assurance. Car allowance (or cash alternative) is provided. Life cover is 4 x annual salary payable should death in service occur. Private medical insurance is provided for the executive only (family cover at the additional cost to the Executive). Permanent health insurance cover equal to 75% of the Executive's annual salary is provided (as long as the executive is a member of the AA pension scheme).

Retirement benefits

The amount set out in the table represents the Company contribution to the Directors' retirement planning. The Company makes contributions to the AA pension scheme equal to 11.7% of the Executive's annual basic salary or makes the equivalent payment to the Executive's personal arrangement.

Annual bonus

Given the unique nature of the transaction leading to Admission, a formal bonus structure was not in place for the current Executive Directors in respect of 2014/15. Therefore for this transitional year only, the outcome was based on the Committee's review of financial, strategic and individual performance during the year (including

performance and contribution prior to Admission and the achievement of objectives identified during the IPO process). The key factors taken into account include:

- › The successful IPO
- › Financial performance of the business since Admission
- › Repayment of £175m of the most expensive part of the debt structure, the PIK notes
- › Delivery of shareholder value through share price performance
- › The move to the premium list
- › Transformation activities, including thorough review of operations and successful reorganisation of the senior management team.

The Committee considered a bonus for the year of up to 80% of full year salary. Reflecting the efforts of management over the course of the period and delivery against objectives set at Admission, the Committee has determined that payments should be as follows: 80% of full year salary for Bob Mackenzie and Martin Clarke and 27.3% of full year salary for Nick Hewitt. No bonus was paid to either Andy Boland or Chris Jansen in respect of the financial year under review.

A formal bonus structure with pre-set targets has been implemented by the Remuneration Committee in respect of 2015/16. Further details are set out on page 64.

Long-term incentives – vesting during the year

There were no long-term incentive awards vesting during the year.

MVP shares – granted during the year

The MVP shares structure was implemented at Admission in order to align the interests of the MBI team and management with those of shareholders in the period following Admission.

The arrangement takes the form of A shares, B shares and C shares. Each class represents one-third of the total number of shares under the plan. As described in the Policy Report, the value of the A, B and C shares is dependent on the total shareholder return (TSR) generated over the three to five year period following Admission assuming a value of £2.50 per share on Admission.

The total value of all the A, B and C shares will be calculated as follows:

Annualised TSR	Value of MVP shares
Below 12%	nil
At or above 12%	5% of the TSR generated up to the 12% hurdle and 10% of the TSR generated over and above the 12% hurdle

Prior to Admission Bob Mackenzie, Martin Clarke and Nick Hewitt subscribed for 40% of the MVP shares in the following proportions: 22.4%, 8.8% and 8.8% respectively of the overall MVP shares. In relation to the remaining 60% of the shares, as noted in the Prospectus at Admission, these were to be allocated following Admission. The Committee deferred allocation until there was a better understanding of the roles and responsibilities within the wider management team. This review was completed following the year-end and the Committee has determined that subsequent to the date of this report, Bob Mackenzie and Martin Clarke will be allocated a further 32.6% and 13.2% respectively of the overall MVP shares in issue giving total allocations of 55% and 22% respectively; Nick Hewitt holds the 8.8% from the original allocation and the remaining 14.2% will be used for the benefit of other senior management below plc Board level.

Once the MVP shares are fully allocated, other than in exceptional circumstances (e.g. major role change), the Committee does not intend to allocate any further awards to Executive Directors.

The following table provides details of the MVP share subscriptions and allocations made on and following Admission.

Name	Type of award	Percentage of MVP shares held	Face value of MVP shares on subscription (nominal value) ¹	Performance review dates
Bob Mackenzie		On Admission – 22.4% Subsequent allocation – 32.6% Total – 55%	On Admission – £13,440 Subsequent allocation – £19,560	
Martin Clarke	MVP shares (A, B and C shares)	On Admission – 8.8% Subsequent allocation – 13.2% Total – 22%	On Admission – £5,280 Subsequent allocation – £7,920	June 2017 (A shares) June 2018 (A and B shares) June 2019 (A, B and C shares)
Nick Hewitt		On Admission – 8.8% Total – 8.8%	On Admission – £5,280	

¹ The MVP A, B and C shares are not listed shares, and therefore the nominal value has been used rather than the share price of £0.001 on Admission.

Payments on termination

During the year payments in lieu of outstanding notice periods were made on termination of office of £276,000 to Andy Boland (all relating to salary) and £584,000 to Chris Jansen (£572,000 of salary and £12,000 car allowance). These were contractual payments in lieu of outstanding notice periods. Andy Boland will also receive benefits under the company car scheme until August 2015. Neither individual received a bonus payment in respect of 2014/15.

Other directorships

Bob Mackenzie is Chairman of Northgate Plc, a role which predates his appointment to the AA, and receives an annual fee of £160,000 which he retains.

Single total figure of remuneration (audited)

Non-Executive Directors

The tables below set out the total remuneration for Non-Executive Directors for the year ended 31 January 2015.

Name (role)	2015			2014		
	Fees £000	Benefits £000	Total £000	Fees £000	Benefits £000	Total £000
John Leach SID / NED	100	–	100	–	–	–
Andrew Blowers NED	48	–	48	–	–	–
Simon Breakwell NED	50	–	50	–	–	–
Andrew Miller NED	68	–	68	–	–	–
Margaret Young NED	57	–	57	–	–	–

The fees shown are those paid to the Directors from the date of Admission. In the seven months following Admission and leading to the premium listing, significant additional work was required by the chairs of the committees in relation to establishing the appropriate governance processes and committee activities. The Board (excluding Non-Executive Directors) therefore determined that it would be appropriate for an additional fee of £20,000 to be paid to the chairs of each of the Audit, Risk and Remuneration Committees and this amount is included in the table.

Statement of Directors' shareholding and share interests (audited)

The table below sets out the Directors' share interests in the ordinary shares of the Company.

As at 31 January 2015

Executive Directors

Bob Mackenzie	800,000
Martin Clarke	720,000
Nick Hewitt	80,000

Non-Executive Directors

John Leach	30,000
Andrew Blowers	–
Simon Breakwell	–
Andrew Miller	–
Margaret Young ¹	20,000

The table below sets out the Directors' interests in MVP shares.

Name	MVP shares		
	Value subject to a performance condition		Total
	Subscribed prior to Admission	Allocated but not yet subscribed	
Executive Directors			
Bob Mackenzie	22.4%	32.6%	55.0%
Martin Clarke	8.8%	13.2%	22.0%
Nick Hewitt	8.8%	–	8.8%
Total	40.0%	45.8%	85.8%

The policy table sets out further details of the operation of the MVP shares. The Non-Executive Directors do not have any interests in MVP shares.

¹ Margaret Young resigned as a director on 25 February 2015.

Directors' Remuneration Report continued

Implementation for 2015/16

The following table summarises how remuneration arrangements will be operated for 2015/16. The Remuneration Committee Chairman's statement provides further context to the decisions made.

Salary and benefits

› Following the year end, the Committee reviewed the base salaries for Executive Directors as part of the annual salary review process. In particular the Committee took the opportunity to ensure salary levels reflected the evolving roles for the Executive Directors.

› Martin Clarke's role expanded significantly in the period following Admission. In particular, following the departure of Andy Boland, he was appointed as Chief Financial Officer. Taking into account the additional complexity of the role in the context of the Group's transformation and financing arrangements, the Committee determined that Mr Clarke's salary should be repositioned to £480,000 with effect from 1 February 2015.

	On Admission	2015/16 salary
Bob Mackenzie	£750,000	£750,000 (0%)
Martin Clarke	£400,000	£480,000 (20%)
Nick Hewitt	£400,000	£400,000 (0%)

Benefits include car allowance, private healthcare and life assurance. Company contributions to the Executive Directors' retirement benefits remain at 11.7% of salary.

Annual bonus

The maximum opportunity for the Executive Directors will be 120% of salary.

The performance targets in respect of the 2015/16 bonus will be based on:

Financial / EBITDA targets	60%
Strategic targets	15%
Individual objectives	25%

The individual objectives are subject to a profit underpin. The detail of targets for the coming year is commercially sensitive. However, the Committee will look to provide appropriate explanation of bonus outcomes following the end of the bonus year.

The 2015/16 bonus will be subject to both malus and clawback provisions.

MVP shares

Once MVP shares are fully subscribed, the Committee does not intend to allocate further awards to Executive Directors.

PSP

Although approval will be sought for the PSP at the 2015 AGM, the Committee does not intend to grant awards to the current Executive Directors under this plan.

Non-Executive Directors

The current fees payable to the Non-Executive Directors are shown in the following table.

Role	Fee
Senior Independent Director	£170,000
Basic fee for other Non-Executive Directors	£80,000
Additional fee for chairing of Board Committee (other than Nomination Committee)	£15,000

Service contracts and letters of appointment

Each of the Board members will be proposed for re-election at the 2015 Annual General Meeting. The Executive Directors are employed under rolling service contracts that do not have fixed terms of appointment, but are subject to a 12-month notice period. The Non-Executive Directors are appointed under a letter of appointment for an initial term of three years (subject to annual re-election at the AGM) which may be terminated by either party subject to a one-month notice period other than certain conditions under which the Company can terminate with immediate effect. The details of the Non-Executive Directors terms are set out below:

Name	Date of appointment	Term expires
John Leach	26 June 2014	9 June 2018
Andrew Miller	26 June 2014	9 June 2018
Simon Breakwell	17 September 2014	9 June 2018
Andrew Blowers	25 September 2014	9 June 2018

Performance graph and table

The chart below illustrates AA Group's TSR performance against the FTSE 250 (excluding investment trusts) since Admission.

The table below shows the total remuneration paid to the Executive Chairman since Admission.

Executive Chairman remuneration	2014/15
Executive Chairman single figure of remuneration	£1,113k
Annual bonus payout (% of maximum)	100%
Long-term incentives vesting (% of maximum)	n/a

Percentage change in remuneration of Director undertaking the role of Executive Chairman

The table below illustrates the percentage change in salary, benefits and annual bonus for the Executive Chairman as against all other employees.

	% change in base salary	% change in benefits	% change in annual bonus
Executive Chairman ¹	n/a – no increase for 2015/16	n/a	n/a
All employees ²	2%	0%	0%

¹ As noted in the single-figure table, there are no prior year comparables.

² Change in base salary for employees represents the average increase implemented as part of the Company's annual pay review in April 2014. The change in annual bonus represents the maximum potential bonus payable to employees.

Directors' Remuneration Report continued

Relative importance of spend on pay

The table below illustrates the year-on-year change in the total remuneration costs for all employees against the Company's key performance metric of Trading EBITDA. No distributions have been made since Admission and therefore no figure is shown.

	2015 £m	2014 £m	% change
Total remuneration	310.8	284.7	9.2%
Trading EBITDA	430.1	422.8	1.7%

Role of the Remuneration Committee

The Remuneration Committee is responsible for reviewing and making recommendations to the Board regarding the remuneration policy of the Group and for reviewing compliance with the policy. During 2014/15, the Remuneration Committee comprised the following Directors: Simon Breakwell (Chairman), Andrew Miller and Andrew Blowers. The Executive Chairman and the HR Director attended parts of Committee meetings by invitation in order to provide the Committee with additional context. The Company Secretary acts as the Committee's secretary. No individual was present when their own remuneration was being determined.

During the course of the year, Deloitte LLP were appointed by the Committee as their advisors. Deloitte LLP received fees of £37,550 for advice to the Committee on a time and materials basis. Deloitte LLP is one of the founding members of the Remuneration Consultants' Group and adheres to the Remuneration Consultants' Group's Code of Conduct. The Committee is satisfied that the advice it has received has been objective and independent. During the year, Deloitte LLP also provided the Company with HR consulting services and taxation advice.

Membership and attendance during the year

Name of Member	Date appointed to Committee	% of possible		
		A	B	meetings attended
Simon Breakwell	17 September 2014	2	2	100%
Andrew Miller	26 June 2014	2	2	100%
Andrew Blowers ¹	3 November 2014	1	2	50%

A = Number of meetings the Member attended.

B = Maximum number of meetings the Member could have attended.

¹ Andrew Blowers was appointed to the committee in November 2014 but was unable to attend the November committee meeting due to a prior engagement but read the papers and provided comments in advance.

Simon Breakwell
Chairman of Remuneration Committee

Directors' Report

Introduction

AA plc, company number 05149111, (the Company) is the holding company of the AA Group of companies (the AA). The Directors of AA plc are pleased to present their report which has been drawn up and presented in accordance with, and in reliance upon applicable English Law, and the liabilities of the Directors in preparing this report shall be subject to the limitations and restrictions provided by such law. The Directors' report is designed to inform shareholders and help them assess how the Directors have performed their duty to promote the success of the Company.

Results for the year are set out on pages 20 to 23. No dividends have been paid or proposed during the year (2014: £2,571.9 million paid to the Acromas group following the refinancing in that year) and the Company's policy on dividends is set out on page 11.

The sections that are required to be included in this Annual Report and Accounts in accordance with the Companies Act 2006 (the 2006 Act), the UK Listing Authority's Listing Rules and Disclosure and Transparency Rules are set out below. The Directors of a company are also required to prepare a strategic report about the Company for each financial year. The AA has chosen in accordance with the 2006 Act to include the disclosure of likely future developments and performance which can be found on pages 8 to 29. To the extent necessary, certain information is incorporated into this report by reference, as follows:

- › Governance Report on pages 38 to 45
- › Risk management on pages 30 to 31
- › Corporate Responsibility Report on pages 32 to 34
- › Audit Committee Report on pages 46 to 49
- › Nomination Committee Report on pages 50 to 51
- › Risk Committee Report on pages 52 to 53
- › Directors' Remuneration Report on pages 54 to 66
- › Financial Instruments and financial risk management (notes 27 and 28)
- › Details of the Group's overseas operations in Ireland on page 29
- › Related party transactions set out in note 32
- › Share schemes set out in note 34

Together, this information is intended to provide a fair, balanced and understandable analysis of the development and performance of the AA's business, its strategy going forward, its performance during the year, likely developments and any principal risks and uncertainties associated with our business.

Share capital

The Company's issued ordinary share capital, as at 31 January 2015, comprised of a single class of ordinary shares which are listed on the Premium segment of the FCA's Official List and admitted to trading on the main market of the London Stock Exchange and three classes of Management Value Participation Shares (MVPS) which are not publicly traded.

Each ordinary share carries the right to one vote at general meetings of the Company while the MVPS have no voting rights. Details of the movements in the issued share capital can be found in note 23 to the financial statements.

The issued and fully paid share capital of the Company as at 31 January 2015 is as follows:

Class	Nominal value	Number	Amount (£)
Ordinary shares	£0.001	554,000,001	554,000.00
MVPS (A1 shares)	£0.001	8,000,000	8,000.00
MVPS (B1 shares)	£0.001	8,000,000	8,000.00
MVPS (C1 shares)	£0.001	8,000,000	8,000.00

The Company has no authorised share capital.

The ordinary shares are listed on the London Stock Exchange and can be held in certificated or uncertificated form. Holders of ordinary shares are entitled to attend and speak at general meetings of the Company, to appoint one or more proxies and, if they are corporations, corporate-representatives are entitled to attend general meetings and to exercise voting rights. All issued ordinary shares are fully paid up.

The MVPS are not listed on any public market and have no voting rights but entitle the holders to receive ordinary shares or cash in the future subject to satisfaction of a 12% compound Total Shareholder Return performance condition. Further details of the MVPS are set out on pages 54 to 66.

Purchase of own shares

No ordinary shares were purchased by the Company during the year ended 31 January 2015 or to the date of this Annual Report and Accounts. At the AGM to be held in 2015, the Company will seek authority by shareholders to purchase up to 10% of the Company's ordinary share capital as at 24 March 2015.

Interest in voting rights

On a show of hands at a general meeting of the Company, every holder of ordinary shares present in person or by proxy and entitled to vote shall have one vote unless the proxy is appointed by more than one shareholder and has been instructed by one or more shareholders to vote for the resolution and by one or more shareholders to vote against the resolution, in which case, the proxy has one vote for and one vote against.

On a poll, every ordinary member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. None of the ordinary shares carry any special voting rights with regard to control of the Company. The Notice of Annual General Meeting (AGM) specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the AGM. The relevant proxy votes are counted and the number for, against or withheld in relation to each resolution will be announced at the AGM and published on the Company's website after the meeting.

There are no restrictions on the transfer of ordinary shares in the Company other than certain restrictions that may be imposed from time to time by laws and regulations and pursuant to the Listing Rules of the Financial Conduct Authority whereby certain Directors, officers and employees of the AA require the approval of the Company to deal in its ordinary shares and under the Placing Agreement dated 20 June 2014, the Directors who purchased shares at IPO have undertaken not to sell their IPO shares for a period of 365 days. We are not aware of any other agreements between holders of securities that may result in restrictions on the transfer of ordinary shares.

Directors' Report continued

Shares held by employee share trusts

The AA has introduced a tax-approved Share Incentive Plan (the Share Incentive Plan) for its UK employees to allow qualifying employees to acquire shares on beneficial terms in accordance with Schedule 2 and/or Schedule 3 to the Income Tax (Earnings and Pensions) Act 2003. In accordance with the rules of the Share Incentive Plan, the first award of partnership and matching shares is expected to be made in August 2015.

An equivalent tax-unapproved plan (the AA International Share Incentive Plan) has been introduced for its Irish employees, to allow qualifying employees to acquire shares on a monthly basis using net pay. The final monthly award of partnership shares and equivalent matching shares is expected to take place in October 2015.

Substantial shareholdings

As at 31 January 2015, we have been notified of the following interests in 3% or more of the issued share capital of the Company:

Name of shareholder	Number of shares	% shareholding
The Capital Research Global Investor Group Companies, Inc.	100,465,548	18.13%
Invesco Limited	55,550,000	10.03%
Lansdowne Partners International Limited	54,960,000	9.92%
Aviva plc	53,721,900	9.70%
BlackRock, Inc.	45,027,451	8.13%
Woodford Investment Management	43,246,883	7.81%
Standard Life Investments	27,690,291	5.00%
GLG Partners LP	26,060,869	4.70%
Henderson Global Investors	below 5%	<5%

The total voting rights figure applicable at 24 March 2015 is 554,000,001 ordinary shares.

Except for the above, we are not aware of any ordinary shareholders with interests of 3% or more in the issued share capital of the Company. We have not been notified of any other changes to the notifiable voting rights in its shares up to 24 March 2015.

Directors and their interests

The Directors who served during the year were:

Before Admission

Before the Management Buy-In and Admission.

Name of Director	Date appointed (if during period)	Date of resignation
Andrew Goodsell	–	20 Jun 2014
Stuart Howard	–	20 Jun 2014
James Arnell	–	20 Jun 2014
Robin Hooper	–	20 Jun 2014
Philip Muelder	–	20 Jun 2014
Chris Jansen	–	31 Aug 2014
Andy Boland	–	19 Dec 2014

Since Admission

Name of Director	Date appointed	Date of resignation
Chris Jansen	–	31 Aug 2014
Andy Boland	–	19 Dec 2014
Bob Mackenzie	26 Jun 2014	–
Martin Clarke	26 Jun 2014	–
Nick Hewitt	26 Jun 2014	–
John Leach	26 Jun 2014	–
Margaret Young	26 Jun 2014	25 Feb 2015
Andrew Miller	26 Jun 2014	–
Simon Breakwell	17 Sep 2014	–
Andrew Blowers	25 Sep 2014	–

The biographical details of the current Directors are set out on pages 36 to 37 of this Annual Report.

The appointment and replacement of Directors is governed by the Company's Articles of Association (the Articles), the UK Corporate Governance Code, the 2006 Act and related legislation. Subject to the Articles, the 2006 Act and any directions given by special resolution, the business of the AA is managed by the Board who may exercise all the powers of the Company.

The interests of Directors and their immediate families in the shares of the Company, along with details of the long-term incentives awarded to Executive Directors are contained in Remuneration Report set out on pages 54 to 66.

No Directors have beneficial interests in the shares of any subsidiary company. Further details relating to the MVPS plan can be found on pages 54 to 66.

There have been no changes in the interests of the Directors (including share options or LTIP awards) in the share capital of the Company from 31 January 2015 to 24 March 2015.

Directors' indemnities

The Company maintains directors' and officers' liability insurance, which gives appropriate cover for legal action brought against its Directors and officers. The AA has also granted indemnities to each of its Directors and the Company Secretary to the extent permitted by law. Qualifying third-party indemnity provisions (as defined by section 234 of the 2006 Act) were in force during the year ended 31 January 2015 and remain in force, in relation to certain losses and liabilities which the Directors or Company Secretary may incur to third parties in the course of acting as Directors or Company Secretary or employees of the Company or any associated company.

Directors' conflicts of interest

The AA has procedures in place for managing conflicts of interest. Should a Director become aware that they, or their connected parties, have an interest in an existing or proposed transaction with the AA, they should notify the Board in writing or at the next Board meeting.

Internal controls are in place to ensure that any related party transactions involving Directors, or their connected parties, are conducted on an arm's length basis. Directors have a continuing duty to update any changes to these conflicts.

Employee involvement

We remain committed to employee involvement throughout the business. Employees are kept informed of the performance and strategy and the financial and economic factors affecting the performance of the Group through regular briefings, emails and our monthly staff magazine, *Drive*.

Informal discussions take place between senior management and the formal employee consultation bodies including the recognised union to further promote a two-way dialogue between employees and the organisation. We have a two-year plan for our Employee Engagement Survey with the next one due towards the end of 2015.

Further details about our engagement with employees can be found in our Corporate Responsibility Report on pages 32 to 34.

Equal opportunities

The AA is committed to an active equal opportunities policy from recruitment and selection, through training and development, performance reviews and promotion to retirement. It is our policy to promote an environment free from discrimination, harassment and victimisation, where everyone will receive equal treatment regardless of gender, colour, ethnic or national origin, disability, age, marital status, sexual orientation or religion.

We are an organisation which uses everyone's talents and abilities and where diversity is valued.

Employees with disabilities

It is our policy that people with disabilities should have full and fair consideration for all vacancies. Where employees become disabled during our employment, we endeavour to retain, train and adjust their environment where possible to allow them to maximise their potential and assist in career development.

Employees

In the United Kingdom the AA employed an average of 8,153 people in the year (up to and including 31 January 2015) (2014: 8,149).

Annual General Meeting

The Notice convening the 2015 AGM to be held at 12 noon on Tuesday 9 June 2015 at 10 Queen Street Place, London EC4R 1BE is contained in a circular sent to all shareholders. Full details of all resolutions to be proposed are provided in this shareholder circular. The Directors consider that all of the resolutions set out in the Notice of the 2015 AGM are in the best interests of the AA and its shareholders as a whole. We will be voting in favour of the proposed resolutions and unanimously recommend that shareholders vote in favour of each of them.

Articles of Association

The Company's Articles of Association set out the Company's internal regulations and cover such matters as the rights of shareholders, the appointment and removal of Directors, the power to issue and buy back shares and the conduct of the Board and general meetings. A copy of the Company's Articles is available on the Group's website or on request from the Company Secretary. Amendments to the Articles must be approved by shareholders holding at least 75% of the ordinary shares voted in person or by proxy at a general meeting of the Company. The Company's Articles have not been changed since Admission and may only be amended by special resolution at a general meeting of the shareholders.

In accordance with the Company's Articles, Directors can be appointed or removed by the Board or by shareholders in general meeting. Subject to the provisions of relevant legislation, the Company's Articles and any directions given by special resolution of the shareholders, the Board of Directors may exercise all the powers of the Company and may delegate authorities to Committees and management as it sees fit. Details of main Committees of the Board are contained in the Governance Report on pages 38 to 45, and on the Group's website.

Environmental and social responsibility and greenhouse gas emissions

The AA acknowledges that it is part of a wider community and recognises that it has a responsibility to act in ways that respect the environment and the social wellbeing of others. Details of the AA's approach to these issues and emissions attributable to all activities are set out in the Corporate Responsibility Report at pages 32 to 34.

Political donations

No political donations were made during the year ended 31 January 2015. The AA has a policy of not making donations to political organisations or independent election candidates or incurring political expenditure anywhere in the world as defined in the 2006 Act.

Significant agreements – change of control

The Company is not party to any significant agreements that would take effect, alter or terminate following a change of control of the Company. The Company does not have agreements with any Director or officer that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share plans and the Management Value Participation shares may cause awards and options granted under such arrangements to vest on a takeover.

Events after the Balance Sheet date

Events after the Balance Sheet date are disclosed in note 37 to the financial statements.

Auditors

Ernst & Young LLP have signified their willingness to continue in office as statutory auditor of the AA and we are satisfied that Ernst & Young LLP is independent and there are adequate safeguards in place to safeguard its objectivity. A resolution to reappoint Ernst & Young LLP as the AA's auditors will be proposed at the 2015 AGM.

Directors' Report continued

Disclosure of information to auditors

Each Director confirms that, so far as he/she is aware, there is no relevant audit information of which the auditors are unaware, and that each Director has taken all the steps that he/she ought to have taken as a Director to make him/her aware of any relevant audit information, and to establish that the auditors are aware of that information.

Directors' responsibilities

At the AA, quality is not something that is merely added on to the end of any process, it is embedded throughout to ensure that each stage reflects the standards we and our stakeholders expect. This also applies to the Annual Report. The Board is of the view that the Annual Report should be representative of the year and provide the necessary information for shareholders to assess the AA's performance, business model and strategy. This is not achieved by merely reviewing the final documents at the end of the preparation process. The Board ensured that their requirements were clear from the outset and communicated to all who input and assist with the preparation of the document.

The Board advise that the narrative reports should reflect its considered view of the information investors and other users of the reports need, and should avoid being promotional in nature. The narrative reports in the front and financial statements in the back of the report must be consistent and the teams worked closely together to achieve this. For an independent opinion, the Board requested that the Audit Committee review the report and provide feedback. The Audit Committee's feedback is found on page 49.

The current Directors, who are named on page 37 are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the AA's financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and its profit or loss for that period. In preparing these financial statements, the Directors are required to:

- › Select suitable accounting policies and then apply them consistently
- › Make judgements and accounting estimates that are reasonable and prudent
- › State whether applicable IFRSs as adopted by the EU have been followed, subject to any material departures disclosed and explained in the financial statements
- › Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the AA to enable us to ensure that the financial statements and the Remuneration Report comply with the Companies Act 2006 and, as regards the financial statements, Article 4 of the IAS Regulation. The Directors are also responsible for safeguarding the assets of the AA and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the AA's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Pursuant to Disclosure and Transparency Rule 4, each of the current Directors, whose names and functions are listed on page 37 of the Annual Report confirm that, to the best of their knowledge:

- › The AA's financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the AA Group taken as a whole
- › The Strategic Report and the Directors' Report (together the Management Report) include a fair review of the development and performance of the business and the position of the AA Group taken as a whole, together with a description of the principal risks and uncertainties that it faces
- › This Annual Report, taken as a whole, is fair, balanced and understandable, and provides the necessary information for shareholders to assess the AA's performance, business model and strategy

Going concern

The AA's business activities, together with the factors likely to affect its future development, performance and position are set out on pages 8 to 29. The financial position of the AA, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 20 to 23. In addition, notes 27 and 28 to the Group financial statements include the AA's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

We have a reasonable expectation that the AA has adequate resources to continue in operational existence for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements.

By order of the Board



Mark Millar
Company Secretary

24 March 2015

Independent Auditor's Report to the members of AA plc

Our opinion on the financial statements is unmodified:

In our opinion:

- › The financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 January 2015 and of the Group's profit for the year then ended
- › The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union
- › The parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice
- › The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation

Overview

Materiality

Overall Group materiality of £8.4 million which represents 2% of Trading EBITDA.

Audit scope

We performed an audit of the complete financial information of the Roadside Assistance and Insurance Services divisions and audit procedures on specific balances for the remaining divisions.

The divisions and entities where we performed full audit procedures accounted for 89% of the Group's revenue and 92% of the Group's Trading EBITDA.

Areas of focus

- › Revenue recognition
- › Valuation of the net pension scheme liability
- › Valuation and disclosures relating to financial instruments

Our assessment of the risk of material misstatement

The table below shows the risks we identified that had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. For each risk identified we have documented our response and audit procedures.

Area of focus

How our audit work addressed the area of focus

Revenue recognition

Refer to page 48 (Audit Committee report) and note 1.2 (o) (accounting policy)

The basis of recognising revenue differs between the various products and services provided by the Group, as set out in accounting policy 1.2 (o). We consider that the variety of personal and business roadside assistance, insurance and driving services contracts in place presents an increased risk of error or potential management override, particularly in respect of new contracts and product terms and features.

Management has previously identified issues with the way in which an underlying system generates accounting entries for processing and deferring revenue from the personal roadside business, and have implemented additional procedures to ensure the accurate recording of such revenue.

- › We considered the Group's accounting policies in respect of revenue recognition to ensure that they appropriately reflected the requirements of IAS18
- › We assessed the design, implementation and operating effectiveness of key controls over revenue recognition and tested controls over revenue processing for the principal roadside assistance, insurance and driving services income streams
- › We performed tests of detail to assess whether the revenue recognition practices adopted complied with the stated accounting policies. In particular, we tested a sample of roadside assistance revenue transactions to ensure that revenue had been deferred in a manner consistent with the relevant contract and a sample of insurance broking transactions to confirm that all services under the contract had been performed at the point at which revenue was recognised
- › We reviewed journal entries for any evidence of management override and obtained evidence to corroborate individually unusual and/or material revenue journals
- › We performed analytical procedures to compare revenue recognised with our expectations from past experience, management's forecasts and our understanding of product features and terms
- › We reviewed material new business roadside assistance contracts and changes to product terms and features for personal roadside assistance products to ensure that revenue had been recognised in accordance with the Group's accounting policies
- › For the system where management has implemented additional procedures, we tested controls over those procedures. We checked the completeness of data used in the calculation of revenue, tested the methodology used to generate accounting entries by re-performing a sample of calculations and ensured that the resulting accounting entries had been accurately processed

Independent Auditor's Report to the members of AA plc continued

Area of focus

How our audit work addressed the area of focus

Valuation of the net pension scheme liability

Refer to page 48 (Audit Committee report), note 1.2 (n) (accounting policy) and note 25 (disclosures)

The Group operates three defined benefit pension schemes and we consider the valuation of the net pension liability to be a significant risk as:

› The actuarial assumptions used to value the pension scheme liabilities are judgemental and sensitive.

› The schemes hold certain illiquid assets, including investments in hedge funds and private equity funds for which there are no quoted prices therefore prices are obtained directly from the administrator.

Due to the significance of the value of the pension obligation, a small change in actuarial assumptions may result in a material difference to the amounts reported.

› We understood and walked through management's controls in respect of the selection of key assumptions related to valuation of actuarial liabilities and the valuation of scheme assets

› Using external data we verified the appropriateness of the key actuarial assumptions, as detailed in note 25 of the consolidated financial statements, used by management, in determining the pension obligation under IAS 19(R) to ensure their assumptions were appropriate, met the requirements of IFRS and were in line with market practice

› This included a comparison of life expectancy with relevant mortality tables, benchmarking inflation and discount rates against external market data, considering changes in historical assumptions and evaluating the independence, qualifications and results of work performed by management's experts involved in the valuation process

› We used our pension specialists to assist us with these procedures

› We obtained net asset value (NAV) statements in respect of the schemes' investments in hedge funds and private equity funds directly from the fund administrator and reconciled them to both the scheme's custody records and the Group financial statements

› Where applicable we reviewed administrator controls reports for controls over the valuation of investments in hedge funds and private equity funds

› We obtained and reviewed a sample of audited fund financial statements for private equity funds to assess whether the NAV on which the investment valuation was based was appropriate

Financial instrument measurement, recognition and disclosure

Refer to page 49 (Audit Committee report), note 1.2 (j) (accounting policy) and notes 20 and 27 (disclosures)

Certain of the Group's borrowing instruments described in note 20 to the financial statements contain prepayment options, which potentially represent embedded derivatives requiring separation from the host and measurement at fair value under IAS39. As stated in the audit committee report management consider that any such embedded derivatives are not material.

The Group has hedged the variable interest rate exposure on the Senior Term facility using interest rate swap arrangements as described in note 20. Cash flow hedge accounting has been applied to these arrangements.

The judgment involved in identifying and valuing embedded derivatives within the loan instruments and in demonstrating hedge effectiveness for the cash flow hedge accounting leads to a higher risk of error in the recognition, measurement and disclosure of financial instruments in the financial statements.

› We reviewed the terms of the documents governing the class A notes, class B notes and PIK notes and, using our financial instrument valuation specialists, performed our own valuation of the prepayment options in the various loan notes. This enabled us to confirm management's assessment that there were no material embedded derivatives requiring separation from the host in these loans

› We assessed the design, implementation and operating effectiveness of key controls over the valuation of the hedging instruments and the application of hedge accounting

› Using our derivative valuation specialists, we reperformed the valuation of a sample of the swaps used as hedging instruments

› We critically assessed management's hedging documentation to confirm that it demonstrated hedge effectiveness as required by IAS39

› We tested management's hedge effectiveness calculations to assess whether they had properly identified ineffectiveness and related amounts to be directly included in the income statement or reclassified from OCI

› We vouched the amounts recorded in OCI and the income statement to the movements in the valuations of the swaps in the period

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of identified misstatements on our audit and of uncorrected misstatements, if any, on the financial statements and in forming our opinion in the Audit Report.

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole. We determined materiality for the Group to be £8.4 million, which is approximately 2 per cent of trading earnings before interest, tax, depreciation and amortisation ('Trading EBITDA'). We base our materiality on trading EBITDA as this is the key metric used by management in measuring and reporting on the performance of the business.

This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement is that overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Group should be 50% of materiality, namely £4.2 million. Our objective in adopting this approach is to ensure that total uncorrected and undetected audit differences do not exceed our materiality of £8.4 million for the financial statements as whole.

Audit work at individual components is undertaken based on a percentage of our total performance materiality. The performance materiality set for each component is based on the relative size of the component and our view of the risk of misstatement at that component. The range of the performance materiality allocated to components was £0.7 million to £3.3 million.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.4 million, as well as differences below that threshold that, in our view warranted reporting on qualitative grounds. We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations.

An overview of the scope of our audit

Following our assessment of the risk of material misstatement to the Group financial statements, our audit scope focused on the two largest divisions, Roadside Assistance and Insurance Services, which were subject to a full scope audit for the year ended 31 January 2015. For the remaining divisions (Driving Services and Ireland) and the statutory entities containing the group's borrowings and related hedging instruments, pension scheme balances and head office costs, specific audit procedures were performed including full audit of the accounts that were impacted by our assessed risks of material misstatement. The entities and divisions for which we performed full scope audits accounted for 89 per cent of the Group's turnover and 92 per cent of the Group's Trading EBITDA. For the remaining entities in the group, we undertook analytical and enquiry procedures to address the residual risk of material misstatement.

What we have audited

We have audited the financial statements of AA plc for the year ended 31 January 2015 which comprise:

Group

- › 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
- › The related notes 1 to 37 to the consolidated financial statements

Company

- › The Company balance sheet
- › The related notes 1 to 8 to the Company financial statements

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Independent Auditor's Report to the members of AA plc continued

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' responsibilities statement set out on page 70, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- › The part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006
- › The information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- › Materially inconsistent with the information in the audited financial statements or
- › Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit or
- › Otherwise misleading

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- › Adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us or
- › The parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns or
- › Certain disclosures of Directors' remuneration specified by law are not made or
- › We have not received all the information and explanations we require for our audit

Under the Listing Rules we are required to review:

- › The Directors' statement, set out on page 70, in relation to going concern
- › The part of the corporate governance statement relating to the Company's compliance with the ten provisions of the UK Corporate Governance Code specified for our review

Ernst & Young LLP

John Headley (Senior statutory auditor)

for and on behalf of Ernst & Young LLP
Statutory Auditor
London

24 March 2015

1 The maintenance and integrity of the AA plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On the following
pages are the
financial statements
for the year ending
31 January 2015.

Consolidated income statement

for the year ended 31 January

	Note	2015 £m	2014 £m
Revenue	2	983.5	973.9
Cost of sales		(345.4)	(343.6)
Gross profit		638.1	630.3
Other operating income	3	0.4	0.3
Administrative & marketing expenses		(313.5)	(259.4)
Share of profits of joint venture and associates, net of tax		0.9	0.4
Operating profit		325.9	371.6
Trading EBITDA	2	430.1	422.8
Items not allocated to a segment	2	(6.4)	5.2
Amortisation and depreciation	11, 13	(48.3)	(39.6)
Share-based payments and acquisition earn-out costs	34	(1.9)	(2.2)
Exceptional items	4	(47.6)	(14.6)
Operating profit	4	325.9	371.6
Profit on disposal of joint venture		–	0.4
Finance costs	5	(266.1)	(179.5)
Finance income	6	1.0	0.3
Profit before tax		60.8	192.8
Tax credit/(expense)	8	8.3	(39.4)
Profit for the year		69.1	153.4
Earnings per share from profit for the year		2015 pence	2014 pence
Basic	9	13.3	32.7
Diluted	9	13.3	32.7

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

Consolidated statement of comprehensive income

for the year ended 31 January

	Note	2015 £m	2014 £m
Profit for the year		69.1	153.4
Other comprehensive income on items that may be reclassified to profit and loss in subsequent years			
Exchange differences on translation of foreign operations		(0.8)	(0.1)
Effective portion of changes in fair value of cash flow hedges	27	(14.2)	(7.8)
Tax effect	8	2.8	1.6
		(12.2)	(6.3)
Other comprehensive income on items that will not to be reclassified to profit and loss in subsequent years			
Remeasurement losses on defined benefit schemes	25	(167.3)	(122.7)
Tax effect	8	32.5	24.5
		(134.8)	(98.2)
Total other comprehensive income	24	(147.0)	(104.5)
Total comprehensive income for the year		(77.9)	48.9

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

Consolidated statement of financial position

as at 31 January

	Note	2015 £m	2014 £m
Non-current assets			
Goodwill and other intangible assets	11	1,256.9	1,245.7
Property, plant and equipment	13	99.8	77.3
Investments in joint ventures and associates	14	4.1	3.5
Deferred tax assets	8	81.4	36.4
Other receivables	16	21.2	6.4
		1,463.4	1,369.3
Current assets			
Inventories	15	5.0	4.9
Trade and other receivables	16	187.1	162.9
Current tax receivable		1.2	–
Cash and cash equivalents	17	301.5	203.2
		494.8	371.0
Total assets		1,958.2	1,740.3
Current liabilities			
Trade and other payables	18	(498.2)	(461.9)
Provisions	21	(8.0)	(11.9)
		(506.2)	(473.8)
Non-current liabilities			
Borrowings and loans	19	(3,240.9)	(3,351.4)
Finance lease obligations	29	(15.8)	(7.9)
Defined benefit pension scheme liabilities	25	(434.4)	(265.5)
Provisions	21	(12.2)	(15.7)
Insurance technical provisions	22	(3.9)	(4.2)
		(3,707.2)	(3,644.7)
Total liabilities		(4,213.4)	(4,118.5)
Net liabilities		(2,255.2)	(2,378.2)
Equity			
Share capital	23	0.6	0.2
Share premium	24	199.7	0.8
Currency translation reserve	24	(1.9)	(1.1)
Cashflow hedge reserve	24	(17.6)	(6.2)
Retained earnings	24	(2,436.0)	(2,371.9)
Total equity attributable to equity holders of the parent		(2,255.2)	(2,378.2)

Signed for and on behalf of the Board on 24 March 2015 by



Bob Mackenzie
Executive Chairman



Martin Clarke
Chief Financial Officer

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

Consolidated statement of changes in equity

	Attributable to the equity holders of the parent					
	Share capital £m	Share premium £m	Currency translation reserve £m	Cashflow hedge reserve £m	Retained earnings £m	Total £m
At 1 February 2013	0.2	0.8	(1.0)	–	144.8	144.8
Profit for the year	–	–	–	–	153.4	153.4
Other comprehensive income	–	–	(0.1)	(6.2)	(98.2)	(104.5)
Total comprehensive income	–	–	(0.1)	(6.2)	55.2	48.9
Dividends	–	–	–	–	(2,571.9)	(2,571.9)
At 31 January 2014	0.2	0.8	(1.1)	(6.2)	(2,371.9)	(2,378.2)
Profit for the year	–	–	–	–	69.1	69.1
Other comprehensive income	–	–	(0.8)	(11.4)	(134.8)	(147.0)
Total comprehensive income	–	–	(0.8)	(11.4)	(65.7)	(77.9)
Reorganisation of share capital	0.3	(0.3)	–	–	–	–
Issue of share capital	0.1	199.2	–	–	–	199.3
Share-based payments	–	–	–	–	1.6	1.6
At 31 January 2015	0.6	199.7	(1.9)	(17.6)	(2,436.0)	(2,255.2)

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

Consolidated statement of cash flows

for the year ended 31 January

	Note	2015 £m	2014 £m
Net cash flows from operating activities before tax	10	373.3	395.6
Tax paid	10	(2.5)	(8.2)
Net cash flows from operating activities	10	370.8	387.4
Investing activities			
Software development expenditure	11	(31.4)	(19.9)
Purchase of property, plant and equipment (excluding vehicles)		(5.0)	(9.7)
Acquisition of subsidiaries, net of cash acquired		–	(0.6)
Proceeds from disposal of joint venture		–	0.4
Proceeds from fixed term investments – restricted		5.0	4.6
Interest received		1.4	0.7
Net cash flows used in investing activities		(30.0)	(24.5)
Financing activities			
Proceeds from borrowings		913.0	4,266.4
Issue costs on borrowings		(9.8)	(100.3)
Repayment of borrowings		(1,088.0)	(862.0)
Dividends paid	24	–	(2,571.9)
Repayment of amounts owed to parent undertakings		–	(718.3)
Refinancing transactions		(184.8)	13.9
Share capital issued		199.2	–
Interest paid on borrowings		(220.4)	(102.9)
Payment of finance lease capital		(31.2)	(19.1)
Payment of finance lease interest		(4.1)	(2.8)
Payments to group treasury		–	(82.2)
Net cash flows from financing activities		(241.3)	(193.1)
Net increase in cash and cash equivalents		99.5	169.8
Net foreign exchange differences		(1.2)	(0.6)
Cash and cash equivalents at 1 February	17	203.2	34.0
Cash and cash equivalents at 31 January	17	301.5	203.2

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

Notes to the consolidated financial statements

1 Basis of preparation

1.1 General information

The consolidated financial statements for the year ended 31 January 2015 comprise the financial statements of AA plc ('the Company') and its subsidiaries (together referred to as 'the Group'). AA plc is a public limited company incorporated and domiciled in the United Kingdom.

1.2 Accounting policies

The Group has prepared these statements under International Financial Reporting Standards (IFRS) as adopted by the European Union, International Financial Reporting Interpretation Council (IFRIC) interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

These consolidated financial statements have been prepared under the historic cost convention as modified by the measurement of derivatives and liabilities for contingent consideration in business combinations at fair value.

The principal accounting policies are set out below.

a) Going concern

The Group is highly cash generative with a large proportion of its revenues coming from recurring transactions. The significant customer loyalty demonstrated by the high renewal rates and lengthy customer tenure underpins this. The Group's borrowings are long-term in nature and in addition to the cash balances at the reporting date the Group has agreed undrawn credit facilities. Additionally, the Group has ready access to both public debt and equity markets allowing these borrowings to be easily refinanced in due course. The Directors have reviewed projected cash flows for a period of one year from the date of signing these financial statements and have concluded that the Group has sufficient funds to continue trading for this period and the foreseeable future. Therefore, the financial statements have been prepared using the going concern basis.

b) 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 entity and has the ability to influence those returns through its power over the entity.

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.

c) Interests in joint ventures and associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participating in the financial and operating policy decisions of the entity. Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The results, assets and liabilities of joint ventures and associates are incorporated in these financial statements using the equity method of accounting. Investments in joint ventures and associates are carried in the Group balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets less any impairment losses.

d) Foreign currencies

These financial statements are presented in pounds sterling which is the currency of the primary economic environment in which the Group operates.

Transactions in currencies other than the functional currency of each consolidated undertaking are recorded at rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the respective functional currency at rates of exchange ruling at the balance sheet date. Gains and losses arising on the translation of assets and liabilities are taken to the income statement.

The results of overseas operations are translated into sterling at average rates of exchange for the period. Exchange differences arising on the retranslation of the opening net assets of overseas operations are transferred to the Group's cumulative translation reserve in equity.

e) Business combinations and goodwill

All business combinations are accounted for by applying the acquisition method.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identified assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset at cost less accumulated impairment losses.

Any contingent consideration payable is recognised at fair value at the acquisition date, and subsequent changes to the fair value of the contingent consideration are recognised in profit or loss. Any consideration paid to a former owner who continues to work for the business as part of the acquisition that is contingent on future service is excluded from goodwill and treated as acquisition earn-out costs within administrative and marketing expenses.

Notes to the consolidated financial statements continued

1 Basis of preparation continued

1.2 Accounting policies continued

f) Intangible assets

Intangible assets other than goodwill which are acquired separately are stated at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and impairment losses. Intangible assets with finite lives are amortised over the useful economic life.

g) Software and development costs

Software development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- > The technical feasibility of completing the intangible asset so that it will be available for use or sale
- > Its intention to complete and its ability to use or sell the asset
- > How the asset will generate future economic benefits
- > The availability of resources to complete the asset
- > The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the cost model is applied. The asset is carried at cost less any accumulated amortisation and impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over its useful life of three to five years.

h) Property, plant and equipment

Land and buildings held for use in the production of goods and services or for administrative purposes are stated in the balance sheet at cost or fair value for assets acquired in a business combination less any subsequent accumulated depreciation and impairment losses. No capitalised interest is included in the cost of items of property, plant and equipment.

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Such costs include costs directly attributable to making the asset capable of operating as intended. The cost of property, plant and equipment less their expected residual value is depreciated by equal instalments over their useful economic lives.

These lives are as follows:

Buildings	50 years
Related fittings	3 – 20 years
Leasehold properties	over the period of the lease
IT Systems (hardware)	3 – 5 years
Plant, vehicles and other equipment	3 – 10 years

Assets held under finance leases are depreciated on a straight line basis over the lease term.

i) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs include all costs incurred in bringing each product to its present location and condition. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

j) Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. They are classified according to the substance of the contractual arrangements entered into. At each reporting date the Group assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Trade receivables and trade payables

Trade receivables and trade payables are not interest bearing and are recognised initially at fair value. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity less than three months.

Debt instruments

Debt is initially recognised in the balance sheet at fair value less transaction costs incurred directly in connection with the issue of the instrument. Debt issue fees in respect of the instruments, including discounts on issue, are capitalised at inception and charged to the income statement over the term of the instrument using the effective interest method.

1 Basis of preparation continued

1.2 Accounting policies continued

Equity instruments (share capital issued by the Group)

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all its liabilities. Equity instruments are recognised at the fair value of proceeds received less direct issue costs.

Derivative financial instruments

The Group's capital structure exposes it to the financial risk of changes in interest rates. The Group uses interest rate swap contracts to hedge these exposures. In addition, some of the Group's borrowings include early repayment penalty clauses which are classified as derivative financial instruments.

Derivative financial instruments are recorded in the balance sheet at fair value. The fair value of derivative financial instruments is determined by reference to market values for similar financial instruments. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss unless they qualify for hedge accounting as described below.

Cashflow hedges

Changes in the fair value of derivative financial instruments that are designated as highly effective hedges of future cashflows are recognised in other comprehensive income. Any ineffective portion of the hedge is recognised immediately in the income statement. Amounts recognised in other comprehensive income are reclassified from equity to profit and loss (within finance costs) in the period when the hedged item affects profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in the other comprehensive income at that time remains in equity and is reclassified when the hedged transaction is ultimately recognised in the income statement.

In order to qualify for hedge accounting, the Group is required to document from inception the relationship between the item being hedged and the hedging instrument and demonstrate that the hedge will be highly effective on an on-going basis. This effectiveness testing is performed at each period end to ensure that the hedge remains highly effective.

k) Impairment of assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. In addition goodwill and intangible assets not yet available for use are tested for impairment annually.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash generating units or "CGUs"). The goodwill acquired in a business combination is allocated to CGUs so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any allocated goodwill and then to reduce the carrying amounts of the other assets on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

l) Leases

Finance leases transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is shown as a financial liability. Lease payments are apportioned between finance charges and the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement.

Rentals payable and receivable under operating leases are charged, or credited, to the income statement on a straight-line basis over the term of the relevant lease term. Any incentives to enter into an operating lease are recognised evenly over the lease term.

m) Provisions

A provision is required when the Group has a present legal or constructive obligation as a result of a past event and it is probable that settlement will be required of an amount that can be reliably estimated. Provisions are discounted where the impact is material.

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties.

For property leases, where a decision has been made prior to the year end to permanently vacate the property, provision is made for future rent and similar costs net of any rental income expected to be received up to the estimated date of final disposal.

Notes to the consolidated financial statements continued

1 Basis of preparation continued

1.2 Accounting policies continued

n) Retirement benefit obligation

The Group's position in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Group determines the net interest on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability.

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA with maturity dates approximating the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses and the return on plan assets (excluding interest). The Group recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in administrative and marketing expenses in profit or loss.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

For defined contribution schemes, the amounts recognised in profit or loss are the contributions payable in the year.

o) Revenue recognition

Revenue is measured at the fair value of the consideration receivable less any discounts and excluding, value added tax and other sales related taxes.

Roadside membership subscriptions and premiums receivable on underwritten insurance products are apportioned on a time basis over the period where the Group is liable for risk cover. The unrecognised element of subscriptions and premiums receivable, relating to future periods, is held within liabilities as deferred income.

Commission income from insurers external to the Group is recognised at the commencement of the period of risk.

Where customers choose to pay by instalments, the Group charges interest based on the principal outstanding and disclosed interest rate and recognises this income over the course of the loan.

For all other revenue, income is recognised at point of delivery of goods or on provision of service. This includes work which has not yet been fully invoiced, provided that it is considered to be fully recoverable.

p) Insurance contracts

An insurance contract is a contract under which insurance risk is transferred to the issuer of the contract by another party. The Group accepts insurance risk from its customers under roadside recovery service contracts by agreeing to provide services whose frequency and cost is uncertain. Claims and expenses arising from these contracts are recognised in profit or loss as incurred.

At the balance sheet date, a liability adequacy test is performed to ensure the adequacy of the insurance contract liabilities. In performing these tests, current estimates of future cash outflows arising under insurance contracts are considered and compared with the carrying amount of deferred income and other insurance contract liabilities. Any deficiency is immediately recognised in profit or loss and an onerous contract provision is established.

The estimation of the ultimate liability from claims made under insurance contracts is not considered to be one of the Group's most critical accounting estimates. This is because there is a very short period of time between the receipt of a claim, i.e. a breakdown, and the settling of that claim. Consequently there are no significant provisions for unsettled claims costs in respect of the roadside assistance services.

1 Basis of preparation continued

1.2 Accounting policies continued

q) Exceptional items

Exceptional items are events or transactions that fall within the activities of the Group and which by virtue of their size or incidence have been disclosed in order to improve a reader's understanding of the financial statements. See note 4 for further information on the nature of exceptional items.

r) Finance income and costs

Finance costs comprise interest payable, finance charges on finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions (including the net defined benefit obligations), and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy).

Finance income comprises interest receivable on funds invested and net foreign exchange gains.

Foreign currency gains and losses are reported on a net basis.

s) Taxation

Tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

t) Segmental analysis

The Group reports its operations using the segments that are reported for management purposes. Segments are based on business operations because this is where Group risk and return is focussed, with the exception of Ireland which represents the Group's only material operations outside of the UK.

u) Critical accounting estimates and judgements

Estimates and judgements are evaluated continually and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions about the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The principal estimates and assumptions that have a risk of causing an adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

Retirement benefit obligation

The Group's retirement benefit obligation, which is actuarially assessed each period, is based on key assumptions including return on plan assets, discount rates, inflation, future salary and pension costs. These assumptions may be different to the actual outcome.

Derivative financial Instruments

The fair value of derivative financial instruments is determined by reference to market values for similar financial instruments. The Group is therefore required to identify changes in market conditions around expectations for interest rates. These assumptions may be different to the actual outcome.

Notes to the consolidated financial statements continued

2 Segmental information

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

- › **Roadside Assistance:** This segment is the largest part of the AA business. The AA provides a nationwide service, sending patrols out to members stranded at the side of the road, repairing their vehicles where possible and getting them back on their way quickly and safely
- › **Insurance Services:** This segment includes the insurance brokerage activities of the AA, primarily in arranging motor and home insurance for customers, its home emergency activities and its intermediary financial services business
- › **Driving Services:** This segment contains the AA Driving School and the British School of Motoring, which are the two largest driving schools in the UK, as well as AA Drivetech, which provides driver training and educative programmes.
- › **Ireland:** This segment competes in the same segment types as the AA UK business, with the largest part of its business being Insurance Services and Roadside Assistance.
- › **Insurance Underwriting:** This segment consists of a reinsurance company, which historically reinsured certain private motor insurance business which originate from the Group's Insurance Services segment.
- › **Head Office costs:** This segment includes IT, finance, property and other back office support functions

	2015 £m	2014 £m
Revenue		
Roadside Assistance	728.1	712.5
Insurance Services	142.4	148.9
Driving Services	73.7	72.6
Ireland	38.7	39.6
Insurance Underwriting	0.6	0.3
Total revenue	983.5	973.9
Trading EBITDA		
Roadside Assistance	358.9	348.2
Insurance Services	83.9	89.4
Driving Services	20.4	15.6
Ireland	14.8	15.0
Insurance Underwriting	(0.1)	(0.1)
Head Office costs	(47.8)	(45.3)
Total Trading EBITDA	430.1	422.8
Items not allocated to a segment	(6.4)	5.2
Amortisation and depreciation	(48.3)	(39.6)
Share-based payments and acquisition earn-out costs	(1.9)	(2.2)
Exceptional items	(47.6)	(14.6)
Operating profit	325.9	371.6
Profit on disposal of joint venture	–	0.4
Net finance costs	(265.1)	(179.2)
Profit before tax	60.8	192.8

With the exception of Ireland, all other segments operate wholly in the UK. Turnover by destination is not materially different from turnover by origin.

During the period the management responsibility for the Group's Media business was transferred from Driving Services to Roadside Assistance. As a result, the above analysis has been restated to show the results from Media within the Roadside Assistance segment for all periods. For the year ended 31 January 2014, Revenue of the Media business was £14.9m and Trading EBITDA was £4.3m.

Segment performance is primarily evaluated using the Group's key performance measure of Trading EBITDA. Trading EBITDA is profit after tax as reported adjusted for depreciation, amortisation, net finance costs, taxation, exceptional items, share-based payments, acquisition earn-out costs, items not allocated to a segment and profit on disposal of joint venture.

Items not allocated to a segment relate to transactions that do not form part of the on-going segment performance and include transactions which are one-off in nature. In the year ended 31 January 2015 these principally relate to the difference between the cash contributions to the pension schemes for on-going service and the calculated annual service cost.

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

3 Other operating income

	2015 £m	2014 £m
Interest on restricted cash and cash equivalents	0.4	0.3
	0.4	0.3

See note 17 for more information on restricted cash balances.

4 Operating profit

Operating profit is stated after charging:

	2015 £m	2014 £m
Amortisation of owned intangible assets	19.7	12.1
Depreciation of owned tangible fixed assets	9.5	11.5
Depreciation of leased tangible fixed assets	19.1	16.0
Operating lease rentals payable – land and buildings	3.9	3.3
Operating lease rentals payable – plant and machinery	6.0	10.2
Exceptional items	47.6	14.6

Exceptional items includes £33.2m relating to the IPO (2014: £nil), £0.5m relating to financing transactions (2014: £13.8m) and £0.3m (2014: £nil) relating to joint ventures. The remaining exceptional items of £13.6m (2014: £0.8m) relate mainly to cost restructuring activities and onerous property lease costs.

5 Finance costs

	2015 £m	2014 £m
Interest on external borrowings	(210.9)	(123.7)
Finance charges payable under finance leases	(4.1)	(2.8)
Penalties on early repayment of debt	(3.5)	–
Total cash finance costs	(218.5)	(126.5)
Interest on shareholder loans	–	(16.6)
Amortisation of debt issue fees	(29.6)	(29.3)
Transfer from cashflow hedge reserve for extinguishment of cashflow hedge	(7.0)	–
Net finance expense on defined benefit pension schemes	(10.7)	(6.8)
Unwinding of discount and effect of changes in discount rate on provisions	(0.1)	(0.2)
Other finance charges	(0.2)	(0.1)
Total non-cash finance costs	(47.6)	(53.0)
Total finance costs	(266.1)	(179.5)

Cash at bank and in hand – restricted (see note 17) includes an amount of pre-funded interest to cover interest payments on the PIK notes until June 2015.

Within interest on external borrowings is £20.7m (2014: £26.0m) of interest charged on the Senior Term Facility and £10.2m (2014: £9.4m) charged in relation to the interest rate swaps used to hedge the variable element of the Senior Term Facility (see note 20).

Shareholder loans were fully repaid on 2 July 2013 and no further interest was incurred after this date.

Amortisation of debt issue fees include £20.7m (2014: £20.3m) that was immediately written off following the repayment of the Senior Term Facility in May 2014 and the repayment of £175.0m of PIK notes in December 2014 (see note 20). In addition, a penalty fee of £3.5m was paid due to the early repayment of £175.0m of the PIK notes.

Following the repayment of the Initial Senior Term Facility in May 2014, the Group has transferred the fair value of the cashflow hedges at that date to the income statement.

Other finance charges mainly relate to exchange differences.

Notes to the consolidated financial statements continued

6 Finance income

	2015 £m	2014 £m
Interest receivable	1.0	0.3
Total finance income	1.0	0.3

7 Staff costs

	2015 £m	2014 £m
Wages and salaries	257.8	235.9
Social security costs	24.9	23.0
Retirement benefit costs	28.1	25.8
	310.8	284.7

The average monthly number of persons employed under contracts of service during the year was:

	2015	2014
Operational	6,876	6,694
Management and administration	1,277	1,455
	8,153	8,149

8 Tax

	2015 £m	2014 £m
The major components of the income tax expense are:		
Consolidated income statement		
Current income tax		
Current income tax charge	1.4	1.3
Adjustments in respect of previous years	–	0.4
	1.4	1.7
Deferred tax		
Effect of tax rate change on opening balances	–	6.5
Relating to origination and reversal of temporary differences – current year	(9.2)	32.2
Relating to origination and reversal of temporary differences – prior years	(0.5)	(1.0)
	(9.7)	37.7
Tax (credit)/expense in the income statement	(8.3)	39.4

	2015 £m	2014 £m
Consolidated statement of comprehensive income		
Tax on the effective portion of changes in fair value of cash flow hedges	(2.8)	(1.6)
Tax on remeasurements of defined benefit pension liability	(32.5)	(24.5)
Income tax charged directly to other comprehensive income	(35.3)	(26.1)

8 Tax continued

Reconciliation of tax expense to profit before tax multiplied by UK's corporation tax rate:

	2015 £m	2014 £m
Profit before tax	60.8	192.8
Tax at rate of 21.3% (2014: 23.2%)	13.0	44.7
Movement on unprovided deferred tax	(22.0)	(7.4)
Lower rate of foreign tax	(0.8)	(0.8)
Adjustments relating to prior years	(0.5)	(0.6)
Rate change adjustment on temporary differences	(1.1)	2.9
Expenses not deductible for tax purposes:		
– Listing expenses	3.1	–
– Other non-deductible expenses/non-taxed income	–	0.6
Income tax (credit)/expense reported in the consolidated income statement at effective rate of 18.1% (2014: 20.4%)	(8.3)	39.4

Deferred tax by type of temporary difference

	Consolidated statement of financial position		Consolidated income statement	
	2015 £m	2014 £m	2015 £m	2014 £m
Accelerated depreciation for tax purposes	13.1	10.9	(2.2)	3.0
Revaluations of land and buildings to fair value	(1.2)	(1.2)	–	(0.2)
Rollover relief	(2.1)	(2.1)	–	(0.3)
Pension	41.6	8.1	(1.0)	46.3
Revaluation of cashflow hedges	5.8	1.6	(1.4)	–
Short-term temporary differences	2.1	3.5	1.4	1.3
Losses available for offsetting against future taxable income	22.1	15.6	(6.5)	(12.4)
Deferred tax expense			(9.7)	37.7
Net deferred tax assets	81.4	36.4		

Reconciliation of net deferred tax assets

	2015 £m	2014 £m
At 1 February	36.4	48.0
Tax expense recognised in the income statement	9.7	(37.7)
Tax income recognised in OCI	35.3	26.1
At 31 January	81.4	36.4

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

Deferred tax has been recognised at 20% for the UK at 31 January 2015 (2014: 20%) and 12.5% for Ireland (2014: 12.5%).

The Group has tax losses which arose in the UK of £110.2m (2014: £194.4m) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Following the IPO, a deferred tax asset of £22.0m has been recognised on these tax losses as the Group now expects to have sufficient taxable profits to be able to recover these losses. Excluding the impact of the recognition of this deferred tax asset and the impact of expenses relating to the IPO that are disallowable for tax purposes of £14.7m, the Group's effective tax rate is 18.1% (2014: 20.4%).

Following the asset-backed funding arrangements on the AA UK pension scheme detailed in note 25, there was a £39.5m release of the AA UK pension deferred tax asset during the year to 31 January 2014. The remaining £12.9m of tax relief relating to this transaction was utilised in the year ending 31 January 2015.

Notes to the consolidated financial statements continued

9 Earnings per share

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

	2015	2014
Basic earnings per share:		
Profit after tax (£m)	69.1	153.4
Weighted average number of shares outstanding (millions)	520.1	469.3
Basic earnings per share (pence)	13.3	32.7

Immediately prior to the IPO, the existing share capital of the Company was reorganised to have 469.3 million shares. This had no impact on the overall share capital of the Company and therefore for all periods prior to the IPO, the Company has been deemed to have 469.3 million shares outstanding for the purpose of the earnings per share calculation and the earnings per share figure has been recalculated accordingly.

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 January 2015 the Group has only one class of dilutive potential ordinary shares being the employee staff scheme for the UK (SIP), see note 34, where the share price at which shares will be purchased is expected to be less than the average market value of ordinary shares for the period from issue of the options to 31 January 2015.

	2015	2014
Weighted average number of ordinary shares in issue (millions)	520.1	469.3
Potentially dilutive shares under SIP (see note 34) (millions)	1.0	–
Weighted average number of diluted ordinary shares (millions)	521.1	469.3
Diluted earnings per share (pence)	13.3	32.7

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

	2015	2014
Profit after tax as reported (£m)	69.1	153.4
Adjusted for:		
Exceptional items (£m)	47.6	14.6
Share-based payments and acquisition earn-out costs (£m)	1.9	2.2
Items not allocated to a segment (£m)	6.4	(5.2)
Profit on disposal of joint venture (£m)	–	(0.4)
Amortisation of debt issue fees (£m)	20.7	20.3
Penalties on early repayment of debt (£m)	3.5	–
Transfer from cashflow hedge reserve for extinguishment of cashflow hedge (£m)	7.0	–
Tax (credit)/expense (£m)	(8.3)	39.4
Adjusted profit before tax (£m)	147.9	224.3
Tax at the effective rate of 18.1% (2014: 20.4%) (£m)	(26.8)	(45.8)
Adjusted profit after tax (£m)	121.1	178.5
Weighted average number of shares outstanding (millions)	520.1	469.3
Adjusted basic earnings per share (pence)	23.3	38.0
Weighted average number of diluted ordinary shares (millions)	521.1	469.3
Adjusted diluted earnings per share (pence)	23.2	38.0

Amortisation of debt issue fees include £20.7m (2014: £20.3m) that was immediately written off following the repayment of the Senior Term Facility in May 2014 and the repayment of £175.0m of PIK notes in December 2014 (see note 5). In addition, a penalty fee of £3.5m was paid following the early repayment of the PIK notes.

10 Cash flow from operating activities

	2015 £m	2014 £m
Profit before tax	60.8	192.8
Amortisation of intangible assets	19.7	12.1
Depreciation of tangible fixed assets	28.6	27.5
Finance costs	266.1	179.5
Finance income	(1.0)	(0.3)
Other operating income	(0.4)	(0.3)
Share of profit of joint venture and associates	(0.9)	(0.4)
Share-based payments	1.6	–
Profit on disposal of joint venture	–	(0.4)
Working capital adjustments:		
(Increase)/decrease in inventories	(0.1)	0.4
(Increase)/decrease in trade and other receivables	(24.1)	36.9
Increase/(decrease) in trade and other payables	25.2	(11.4)
Decrease in provisions	(7.6)	(22.2)
(Decrease)/increase in insurance technical provisions	(0.3)	1.0
Difference between pension charge and cash contributions	(9.2)	(19.6)
Purchase of vehicles	(0.5)	–
Proceeds from sale of vehicles	15.4	–
Net cash flows from operating activities before tax	373.3	395.6
Tax paid	(2.5)	(8.2)
Net cash flows from operating activities	370.8	387.4

The cash flows from operating activities are stated net of cash outflows relating to exceptional items of £57.2m (2014: £37.4m). This relates to the cost of the IPO of £32.1m (2014: £nil), re-financing of the Group's borrowings £0.5m (2014: £10.8m), acquisition earn out payments of £2.3m (2014: £1.8m), restructuring expenditure costs from the re-organising of Group operations of £18.7m (2014: £18.8m) and onerous property provision lease costs in respect of vacant properties of £3.6m (2014: £6.0m).

Notes to the consolidated financial statements continued

11 Goodwill and other intangible assets

	Goodwill £m	Software £m	Total £m
Cost			
At 1 February 2013	1,197.8	80.3	1,278.1
Additions	0.7	19.9	20.6
Disposals	–	(0.1)	(0.1)
At 31 January 2014	1,198.5	100.1	1,298.6
Additions	–	31.4	31.4
Disposals	–	(1.9)	(1.9)
At 31 January 2015	1,198.5	129.6	1,328.1
Amortisation and impairment			
At 1 February 2013	–	40.8	40.8
Amortisation	–	12.1	12.1
At 31 January 2014	–	52.9	52.9
Amortisation	–	19.7	19.7
Disposals	–	(1.4)	(1.4)
At 31 January 2015	–	71.2	71.2
Net book value			
At 31 January 2015	1,198.5	58.4	1,256.9
At 31 January 2014	1,198.5	47.2	1,245.7

Goodwill additions relate to business combinations disclosed in note 12 below.

Within software, £9.9m (2014: £12.0m) relates to assets under construction which are not amortised.

12 Business combinations

Acquisitions during the year ended 31 January 2015

There were no acquisitions in the current year.

Acquisitions during the year ended 31 January 2014

On 16 January 2014 the Group acquired the entire share capital of VVCR Europe Holding B.V, a provider of driving services for a total consideration of £0.7m.

13 Property, plant and equipment

	Freehold land and buildings £m	Long leasehold land and buildings £m	Vehicles £m	Plant and equipment £m	Total £m
Cost					
At 1 February 2013	23.9	8.3	69.4	97.1	198.7
Additions	–	2.2	9.2	7.8	19.2
Disposals	–	–	(12.2)	(0.3)	(12.5)
Exchange adjustments	–	(0.1)	(0.1)	(0.6)	(0.8)
At 31 January 2014	23.9	10.4	66.3	104.0	204.6
Additions	–	0.3	61.9	5.5	67.7
Disposals	–	(0.1)	(36.1)	(1.1)	(37.3)
Exchange adjustments	–	(0.3)	(0.1)	(1.4)	(1.8)
At 31 January 2015	23.9	10.3	92.0	107.0	233.2
Depreciation and impairment					
At 1 February 2013	4.9	2.9	37.1	67.3	112.2
Charge for the year	0.6	0.5	14.7	11.7	27.5
Disposals	–	–	(11.9)	(0.2)	(12.1)
Exchange adjustments	–	–	–	(0.3)	(0.3)
At 31 January 2014	5.5	3.4	39.9	78.5	127.3
Charge for the year	0.6	0.6	17.4	10.0	28.6
Disposals	–	–	(20.4)	(1.1)	(21.5)
Exchange adjustments	–	(0.1)	–	(0.9)	(1.0)
At 31 January 2015	6.1	3.9	36.9	86.5	133.4
Net book value					
At 31 January 2015	17.8	6.4	55.1	20.5	99.8
At 31 January 2014	18.4	7.0	26.4	25.5	77.3

The net book amount of vehicles includes £53.8m (2014: £24.8m) held under finance lease agreements. The accumulated depreciation on these assets is £35.2m (2014: £38.5m).

The net book amount of other assets includes £0.3m (2014: £1.9m) in respect of plant & machinery held under finance lease agreements. The accumulated depreciation on these assets is £7.7m (2014: £6.1m).

Notes to the consolidated financial statements continued

14 Investments in joint ventures and associates

	2015			2014		
	Joint ventures £m	Associates £m	Total £m	Joint ventures £m	Associates £m	Total £m
At 1 February	–	3.5	3.5	–	3.4	3.4
Share of profits	0.6	0.3	0.9	–	0.4	0.4
Exchange differences	–	(0.3)	(0.3)	–	(0.3)	(0.3)
At 31 January	0.6	3.5	4.1	–	3.5	3.5

The principal joint venture of the Group which is indirectly held is listed below.

Company	Country of registration	Nature of business
AA Law Limited (49% interest held) ¹	England	Insurance services

¹ The Group exercises joint control over AA Law Limited through its equal representation on the Board.

The Group refers personal injury cases to AA Law Limited which accounts for all of the revenue in the joint venture. There are no transactions between the Group and AA Law Limited and therefore no balances outstanding between the parties as at 31 January 2015.

The principal associates of the Group which are indirectly held are listed below:

Company	Country of registration	Name of business
ARC Europe S.A. (20% interest held)	Belgium	Roadside Services
A.C.T.A. Assistance S.A. (22% interest held)	France	Roadside Services

15 Inventories

	2015 £m	2014 £m
Work in progress	0.2	0.1
Finished goods	4.8	4.8
	5.0	4.9

16 Trade and other receivables

	2015 £m	2014 £m
Current		
Trade receivables	156.4	134.1
Prepayments and accrued income	25.4	21.9
Trade receivables from fellow subsidiary undertakings	–	0.8
Other receivables	5.3	6.1
	187.1	162.9
Non-current		
Interest rate swap derivatives (see note 27)	21.2	1.4
Fixed term investments – restricted (see note 17)	–	5.0
	21.2	6.4

Trade receivables from fellow subsidiary undertakings at 31 January 2014 are unsecured, payable within one month and bear no interest.

Included in trade receivables are amounts of £89.0m (2014: £89.3m) relating to amounts due from insurance broking customers.

17 Cash and cash equivalents

	2015 £m	2014 £m
Ring-fenced cash at bank and in hand – available	243.6	127.6
Ring-fenced cash at bank and in hand – restricted	17.6	17.1
Non ring-fenced cash at bank and in hand – available	15.2	1.5
Non ring-fenced cash at bank and in hand – restricted	25.1	57.0
	301.5	203.2

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

Cash at bank and in hand – restricted includes £18.5m (2014: £55.4m) held as pre-funded interest to cover interest payments on the PIK notes (see note 20) and cannot be used for any other purpose.

Cash at bank and in hand, short term deposits and fixed term investments (see note 16) include £24.2m (2014: £23.7m) 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.

18 Trade and other payables

	2015 £m	2014 £m
Trade payables	114.1	102.3
Trade payables owed to group undertakings	–	12.8
Other taxes and social security costs	25.5	21.1
Accruals and deferred income	303.6	273.6
Other payables	20.4	40.0
Obligations under finance lease agreements (note 29)	34.6	12.1
	498.2	461.9

Trade payables owed to group undertakings as at 31 January 2014 are unsecured, payable between one and three months and bear no interest.

Included in trade payables are amounts of £84.8m (2014: £81.6m) relating to amounts due to underwriters in respect of insurance broking activities.

19 Borrowings and loans

	2015 £m	2014 £m
Borrowings (see note 20)	3,190.7	3,342.2
Interest rate swap used for hedging (see note 27)	50.2	9.2
	3,240.9	3,351.4

Notes to the consolidated financial statements continued

20 Borrowings

	Expected maturity date	Interest rate	Principal £m	Issue costs £m	Amortised issue costs £m	Total at 31 January 2015 £m	Total at 31 January 2014 £m
Senior Term Facility	31 January 2019	3.98%	663.0	(3.1)	0.6	660.5	893.0
Class A1 notes	31 July 2018	4.72%	475.0	(3.0)	1.0	473.0	472.4
Class A2 notes	31 July 2025	6.27%	500.0	(0.8)	0.1	499.3	499.3
Class A3 notes	31 July 2020	4.25%	500.0	(2.7)	0.5	497.8	497.3
Class A4 notes	31 July 2019	3.78%	250.0	(2.2)	0.3	248.1	–
Class B notes	31 July 2019	9.50%	655.0	(21.5)	5.6	639.1	635.7
PIK notes	6 November 2019	9.50%	175.0	(5.6)	3.5	172.9	344.5
		5.90%	3,218.0	(38.9)	11.6	3,190.7	3,342.2

A summary of the Group's financing transactions are shown below:

	Initial Senior Term Facility £m	New Senior Term Facility £m	Class A1 notes £m	Class A2 notes £m	Class A3 notes £m	Class A4 notes £m	Class B notes £m	PIK notes £m	Total £m
Issue date:									
2 July 2013	1,775.0	–	300.0	325.0	–	–	655.0	–	3,055.0
27 August 2013	(362.0)	–	175.0	175.0	–	–	–	–	(12.0)
7 November 2013	–	–	–	–	–	–	–	350.0	350.0
29 November 2013	(500.0)	–	–	–	500.0	–	–	–	–
2 May 2014	(913.0)	663.0	–	–	–	250.0	–	–	–
19 December 2014	–	–	–	–	–	–	–	(175.0)	(175.0)
Total	–	663.0	475.0	500.0	500.0	250.0	655.0	175.0	3,218.0

At 31 January 2015, the Senior Term Facility carried interest at a rate of LIBOR plus a margin of 2%. The variable element has been fully hedged using matching interest rate swap arrangements which fix LIBOR at 1.98% until 31 July 2018 and then at 3.00% until 31 January 2019. All other borrowings have fixed interest rates. The weighted average interest rate for all borrowings of 5.9% has been calculated using the effective interest rate and carrying values on 31 January 2015.

In order to show the Group's net borrowing, the notes and the issue costs have been offset. Issue costs are shown net of any premium on the issue of borrowings.

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 B notes. The Class B notes have first ranking security over the assets of the immediate parent undertaking of the AA Intermediate Co group, AA Mid Co Limited. There are restrictions on the ability of the AA Mid Co Limited group to pay a dividend until certain net debt to EBITDA and cashflow criteria are met. The PIK notes are unsecured.

Any early repayment of the Class A, Class B or PIK notes would incur a make-whole payment.

Following the refinancing of the Senior Term Facility and the repayment of the PIK notes, amortisation of the associated issue fees has been accelerated and an additional £20.7m (2014: £20.3m) has been written off in the period.

21 Provisions

	Property leases £m	Restructuring £m	Other £m	Total £m
At 1 February 2013	35.3	13.7	0.8	49.8
Utilised during the year	(6.0)	(14.9)	(1.1)	(22.0)
Released unutilised during the year	(5.8)	(0.2)	–	(6.0)
Unwinding of discount rate	0.2	–	–	0.2
Charge for the year	1.3	2.9	1.4	5.6
At 31 January 2014	25.0	1.5	1.1	27.6
Utilised during the year	(3.6)	(1.0)	(1.4)	(6.0)
Released unutilised during the year	(4.3)	(0.2)	(0.3)	(4.8)
Unwinding of discount rate	0.2	–	–	0.2
Charge for the year	1.2	0.4	1.6	3.2
At 31 January 2015	18.5	0.7	1.0	20.2
Current	6.3	0.7	1.0	8.0
Non-current	12.2	–	–	12.2
At 31 January 2015	18.5	0.7	1.0	20.2
Current	9.3	1.5	1.1	11.9
Non-current	15.7	–	–	15.7
At 31 January 2014	25.0	1.5	1.1	27.6

The property lease provision relates to future onerous lease costs of vacant properties for the remaining period of the lease, net of expected sub-letting income. A significant element of this provision relates to Service Centre sites not transferred to a third party. These sums are mainly expected to be paid out over the next 8 years however it will take 39 years to fully pay out all amounts provided for. The provision has been calculated on a pre-tax discounted basis.

The restructuring provision relates to redundancy and other related costs following the restructuring of operations in the current and prior periods.

Other provisions primarily comprise a provision for an onerous contract of £0.8m. The remaining £0.2m relates to a provision for credit and rewards in the financial services business. These items are reviewed and updated annually.

Notes to the consolidated financial statements continued

22 Insurance technical provisions

	2015 £m	2014 £m
Outstanding claims provisions	2.4	2.9
Other technical provisions – provisions for incurred but not reported claims	1.5	1.3
	3.9	4.2

Provision is made for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported. The estimated cost of claims includes expenses to be incurred in settling claims. The Group takes all reasonable steps to ensure it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing the claims provisions, it is likely that the final outcome will prove to be different than the original liability established.

23 Share capital

	2015 £m	2014 £m
Allotted, called up and fully paid		
1,000,000 'A' ordinary shares of £0.10 each	–	0.1
1,015,344 'B' ordinary shares of £0.10 each	–	0.1
554,000,001 ordinary shares of £0.001 each	0.6	–
	0.6	0.2

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

On 17 June 2014, the A and B ordinary shares were reorganised from 2,015,344 £0.10 shares to 201,534,400 ordinary shares of £0.001 each.

23 Share capital continued

On 20 June 2014, the Company undertook a bonus issue of 267,745,600 shares of £0.001 resulting in a transfer of £0.3m from its share premium account to share capital.

On 26 June 2014, the Company issued 84,720,001 shares at a premium of £199.2m including issue costs.

In addition to the above, on 25 June 2014, AA plc issued 24 million Management Value Participation Shares (MVPS) as follows:

	2015 £000	2014 £000
Allotted, called up and fully paid		
8,000,000 MVPS A1 shares of £0.001 each	8.0	–
8,000,000 MVPS B1 shares of £0.001 each	8.0	–
8,000,000 MVPS C1 shares of £0.001 each	8.0	–
	24.0	–

The MVPS shares have no voting rights. There are 8 million authorised shares in each of the following MVPS classes: A1, B1 and C1. There are 12 million authorised and unissued shares in each of the following MVPS classes: A2, B2 and C2. In total, there are 60 million authorised MVPS shares. See also note 34.

24 Reserves

	Share premium £m	Currency translation reserve £m	Cashflow hedge reserve £m	Retained earnings £m	Total £m
At 1 February 2013	0.8	(1.0)	–	144.8	144.6
Retained profit for the year	–	–	–	153.4	153.4
Other comprehensive income:					
Exchange differences on translation of foreign operations	–	(0.1)	–	–	(0.1)
Remeasurement losses on defined benefit schemes (note 25)	–	–	–	(122.7)	(122.7)
Tax effect of remeasurement losses on defined benefit schemes (note 8)	–	–	–	24.5	24.5
Dividends paid	–	–	–	(2,571.9)	(2,571.9)
Effective portion of changes in fair value of cash flow hedges	–	–	(7.8)	–	(7.8)
Tax effect of effective portion of changes in fair value of cash flow hedges	–	–	1.6	–	1.6
At 31 January 2014	0.8	(1.1)	(6.2)	(2,371.9)	(2,378.4)
Retained profit for the year	–	–	–	69.1	69.1
Other comprehensive income:					
Exchange differences on translation of foreign operations	–	(0.8)	–	–	(0.8)
Remeasurement losses on defined benefit schemes (note 25)	–	–	–	(167.3)	(167.3)
Tax effect of remeasurement losses on defined benefit schemes (note 8)	–	–	–	32.5	32.5
Effective portion of changes in fair value of cash flow hedges	–	–	(14.2)	–	(14.2)
Tax effect of effective portion of changes in fair value of cash flow hedges	–	–	2.8	–	2.8
Reorganisation of share capital	(0.3)	–	–	–	(0.3)
Issue of shares	201.7	–	–	–	201.7
Share issue costs	(2.5)	–	–	–	(2.5)
Share based payments	–	–	–	1.6	1.6
At 31 January 2015	199.7	(1.9)	(17.6)	(2,436.0)	(2,255.8)

Currency translation reserve

The translation reserve comprises foreign exchange differences arising from the translation of the financial statements of foreign operations, as well as from the translation of liabilities that hedge the Group's net investment in a foreign subsidiary.

Cash flow hedge reserve

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

Dividends

In the year ended 31 January 2014, total dividends of £1,276 per qualifying ordinary share were paid.

Notes to the consolidated financial statements continued

25 Pensions

The Group operates two funded defined benefit pension schemes: the AA UK Pension Scheme (AAUK) and the AA Ireland Pension Scheme (AAI). The assets of the schemes are held separately from those of the Group in independently administered funds. New entrants to the AAUK scheme accrue benefits on a career average salary basis. The AAUK scheme has final salary sections that are closed to new entrants but open to future accrual for existing members. The AAI scheme is closed to new entrants and future accrual of benefits. The Group also operates an unfunded post-retirement Private Medical Plan scheme (AAPMP), which is a defined benefit scheme that is not open to new entrants.

On 29 November 2013, the Group completed the AAUK pension scheme triennial valuations agreeing a deficit of £202m with the pension trustees and implementing an asset backed funding scheme. The asset backed funding scheme provides a long-term deficit reduction plan where the Group has an annual deficit reduction contribution of £12.5m increasing with inflation, over a period of up to 25 years from 29 November 2013 secured on the Group's brands and gave a one-off £198.0m tax deduction that the Group could utilise within two years. This compares with the traditional unsecured deficit reduction plan requiring the deficit to be removed over a substantially shorter period and would have resulted in significantly higher annual deficit contributions.

The valuations have been based on a full assessment of the liabilities of the schemes which have been updated where appropriate to 31 January 2015 by independent qualified actuaries.

The Group expects to pay £20.3m in on-going employer contributions and £14.0m in deficit reduction employer contributions to its defined benefit plans (AAUK and AAI) in the year ending 31 January 2016.

The amounts recognised in the balance sheet are as follows:

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

	As at 31 January 2014			
	AAUK £m	AAI £m	AAPMP £m	Total £m
Present value of the defined benefit obligation in respect of pension plans	(1,759.7)	(42.0)	(44.0)	(1,845.7)
Fair value of plan assets	1,546.8	33.4	–	1,580.2
Deficit	(212.9)	(8.6)	(44.0)	(265.5)

The increase in the deficit is mainly due to changes in financial assumptions, mostly from a fall in the discount rates in all of the schemes. This has been partially offset by a gain on assets.

25 Pensions continued

	Assets £m	Liabilities £m	Income statement £m	Statement of comprehensive income £m
Balance at 1 February 2014	1,580.2	(1,845.7)	–	–
Current service cost	–	(26.6)	(26.6)	–
Past service cost	–	0.4	0.4	–
Administration expenses	–	(0.2)	(0.2)	–
Interest on defined benefit scheme assets/(liabilities)	68.6	(79.3)	(10.7)	–
Amounts recognised in the income statement	68.6	(105.7)	(37.1)	–
Effect of changes in financial assumptions	–	(373.5)	–	(373.5)
Effect of experience adjustment	–	(2.5)	–	(2.5)
Return on plan assets excluding interest income	208.7	–	–	208.7
Amounts recognised in the statement of comprehensive income	208.7	(376.0)	–	(167.3)
Foreign exchange (loss)/gain	(3.3)	4.4	–	1.1
Contribution from scheme participants	1.2	(1.2)	–	–
Benefits paid from scheme assets	(45.9)	45.9	–	–
Ongoing employer contributions	20.8	–	–	–
Deficit reduction employer contributions	13.6	–	–	–
Movements through cash	(10.3)	44.7	–	–
Balance at 31 January 2015	1,843.9	(2,278.3)	–	–

A benefit change exercise was carried out within the AAI scheme during the prior year, with effect from 31 August 2013 where future accrual for employed members ceased and guaranteed post-retirement pension increases became discretionary. The impact of this benefit change was a past service credit of £0.4m (2014: £12.4m) in relation to the AAI scheme.

Notes to the consolidated financial statements continued

25 Pensions continued

	Assets £m	Liabilities £m	Income statement £m	Statement of comprehensive income £m
Balance at 1 February 2013	1,535.4	(1,701.1)	–	–
Current service cost	–	(25.8)	(25.8)	–
Past service cost	–	12.4	12.4	–
Interest on defined benefit scheme assets/(liabilities)	71.3	(78.1)	(6.8)	–
Amounts recognised in the income statement	71.3	(91.5)	(20.2)	–
Effect of changes in demographic assumptions	–	(2.1)	–	(2.1)
Effect of changes in financial assumptions	–	(76.0)	–	(76.0)
Effect of experience adjustment	–	(20.2)	–	(20.2)
Return on plan assets excluding interest income	(24.4)	–	–	(24.4)
Amounts recognised in the statement of comprehensive income	(24.4)	(98.3)	–	(122.7)
Foreign exchange (loss)/gain	(1.3)	1.9	–	0.6
Contribution from scheme participants	1.2	(1.2)	–	–
Benefits paid from scheme assets	(44.5)	44.5	–	–
Ongoing employer contributions	19.4	–	–	–
Deficit reduction employer contributions	23.1	–	–	–
Movements through cash	(0.8)	43.3	–	–
Balance at 31 January 2014	1,580.2	(1,845.7)	–	–

Fair value of plan assets

The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

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, 22.0% of assets do not have a quoted market price.

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

	2015		2014	
	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	237.4	206.4	312.3	154.9
Bonds	730.8	113.0	587.0	66.5
Property	67.2	131.9	16.2	117.3
Hedge funds	–	304.8	–	263.7
Cash/net current assets	14.9	2.5	23.3	5.6
Total plan assets	1,050.3	758.6	938.8	608.0
Actual return on plan assets	272.3		45.6	

25 Pensions continued

Pension plan assumptions

The principal actuarial assumptions were as follows:

	AAUK		AAI		AAPMP	
	2015 %	2014 %	2015 %	2014 %	2015 %	2014 %
Pensioner discount rate	2.9	4.2	1.2	2.9	2.9	4.2
Non pensioner discount rate	3.2	4.5	2.0	3.6	3.2	4.5
Pensioner RPI	2.6	3.2	–	–	2.6	3.2
Non pensioner RPI	2.9	3.4	–	–	2.9	3.4
Rate of increase of pensions in payment – pensioner	2.5	2.9	–	–	–	–
Rate of increase of pensions in payment – non pensioner	2.7	3.0	–	–	–	–
Pensioner increase for deferred benefits	1.9	2.4	1.5	2.0	–	–
Medical premium inflation rate	–	–	–	–	6.6	7.2

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.

Sensitivity analysis

The Scheme exposes the Group to risks such as longevity, interest rate risk and market (investment) risk.

The AA Pension Scheme Trustees have hedged around 45% of interest rate risk and 80% of inflation risk as part of a policy to reduce financial risks to the Scheme.

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit liability by the amounts shown below:

	For the year ending 31 January 2015		
	AAUK £m	AAI £m	AAPMP £m
Increase of 0.25% in discount rate	108.2	3.7	1.8
Increase of 0.25% in inflation rate	(106.4)	(1.4)	–
Increase of 1% in medical claims inflation	–	–	(6.5)
Increase of one year of life expectancy	(66.3)	(1.8)	–

An equivalent decrease in the assumptions at 31 January 2015 would have had the equal but opposite effect on the amounts shown above, on the basis that all other variables remain constant.

The weighted average duration of plan liabilities at 31 January 2015 is 22 years.

Notes to the consolidated financial statements continued

26 Impairment of intangible assets

Goodwill acquired through business combinations has been allocated to cash generating units (CGUs) on initial recognition and for subsequent impairment testing.

The carrying value of goodwill by CGU is as follows:

	2015 £m	2014 £m
Roadside Assistance	874.2	874.2
Insurance Services	240.2	240.2
Driving Services	58.5	58.5
Ireland	25.6	25.6
	1,198.5	1,198.5

The Group has performed impairment testing at 31 January 2015 and 31 January 2014. The impairment test compares the recoverable amount of the CGU to its carrying value.

The recoverable amount of each CGU has been determined based on a value in use calculation using cash flow projections from the Group's three-year plan up to 31 January 2018 and a reasonable expectation of growth in the subsequent two years. For the purposes of the impairment test, terminal values have been calculated using the Gordon growth model and a nil growth assumption which is lower than the expected long-term average growth rate of the UK economy. Cash flows have been discounted at a pre-tax rate reflecting the time value of money and the risk specific to these cash flows. This has been determined as a pre-tax rate of 12.2% (2014: 12.2%).

The value in use calculation used is most sensitive to the assumptions used for growth and for the discount rate. Accordingly, stress testing has been performed on these key assumptions as part of the impairment test to further inform the consideration of whether any impairment is evident. Further to this, management believes that no reasonably foreseeable change in any of the key assumptions would cause the recoverable amount of the CGU to be lower than its carrying amount, and consequently no impairment has been recognised.

27 Financial assets and financial liabilities

The carrying amount of all financial assets and financial liabilities by class is as follows:

Financial assets

	2015 £m	2014 £m
Measured at fair value through other comprehensive income		
Interest rate swaps used for hedging	21.2	1.4
Loans and receivables		
Cash and cash equivalents	301.5	203.2
Trade receivables	156.4	134.1
Trade receivables from fellow subsidiary undertakings	–	0.8
Other receivables and accrued income	17.8	18.4
Fixed term investments	–	5.0
Total financial assets	496.9	362.9

27 Financial assets and financial liabilities continued

Financial liabilities

	2015 £m	2014 £m
Measured at fair value through other comprehensive income		
Interest rate swaps used for hedging	50.2	9.2
Loans and borrowings		
Trade payables	114.1	102.3
Trade payables owed to group undertakings	–	12.8
Other payables	64.1	68.3
Obligations under finance lease agreements	50.4	20.0
Borrowings	3,190.7	3,342.2
Total financial liabilities	3,469.5	3,554.8

Fair values

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

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

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

Observable inputs are those that have been seen either from counterparties or from market pricing sources and are publicly available. The use of these depends upon the liquidity of the relevant market. When measuring the fair value of an asset or a liability, the Group uses observable inputs as much as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation as follows:

Level 1 – Quoted market prices in an actively traded market for identical assets or liabilities. These are the most reliable.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities. These include valuation models used to calculate the present value of expected future cash flows and may be employed either when no active market exists or when there are quoted prices available for similar instruments in active markets. The models incorporate various inputs including interest rate curves and forward rate curves of the underlying instrument.

Level 3 – Inputs for assets or liabilities that are not based on observable market data.

If the inputs used to measure the fair values of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level as the lowest input that is significant to the entire measurements.

The fair values are periodically reviewed by the Group Treasury function. The following tables provide the quantitative fair value hierarchy of the Group's interest rate swaps and loan notes.

The carrying values of all other financial assets and liabilities (including the Senior Term Facility) are approximate to their fair values:

Notes to the consolidated financial statements continued

27 Financial assets and financial liabilities continued

At 31 January 2015:

	Carrying value £m	Fair value measurement using		
		Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
Financial assets measured at fair value				
Interest rate swaps (note 16)	21.2	–	21.2	–
Financial liabilities measured at fair value				
Interest rate swaps (note 19)	50.2	–	50.2	–
Liabilities for which fair values are disclosed				
Loan notes (note 20)	2,530.2	2,861.0	–	–

At 31 January 2014:

	Carrying value £m	Fair value measurement using		
		Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
Financial assets measured at fair value				
Interest rate swaps (note 16)	1.4	–	1.4	–
Financial liabilities measured at fair value				
Interest rate swaps (note 19)	9.2	–	9.2	–
Liabilities for which fair values are disclosed				
Loan notes (note 20)	2,449.2	2,649.7	–	–

There have been no transfers between the levels and no non-recurring fair value measurements of assets and liabilities during the two years to 31 January 2015.

28 Financial risk management objectives and policies

The Group's principal financial liabilities comprise borrowings as well as trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include deposits with financial institutions, money market funds and trade receivables.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks, supported by the Group Treasury function. The Group Treasury function ensures that the Group's financial risks are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. All derivative activities are for risk management purposes and are carried out by the Group Treasury function. It is the Group's policy not to trade in derivatives for speculative purposes.

The Board of directors reviews and agrees policies for managing each of these risks, which are summarised below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in prices set by the market. The key market risk that the Group is exposed to is interest rate risk. The Group has policies and limits approved by the Board for managing the interest rate risk exposure. The Group's policy is to fully hedge all of its exposure to variable interest rates. The Group has therefore taken out interest rate swaps to the value of its variable rate instruments.

The interest rate profile of the Group's interest-bearing financial instruments is as follows:

	2015 £m	2014 £m
Fixed rate instruments		
Financial assets	–	2.0
Financial liabilities	(2,580.6)	(2,469.2)
	(2,580.6)	(2,467.2)
Effect of interest rate swaps	(663.0)	(913.0)
Net exposure to fixed rate instruments	(3,243.6)	(3,380.2)
Variable rate instruments		
Financial assets	–	3.0
Financial liabilities	(660.5)	(893.0)
	(660.5)	(890.0)
Effect of interest rate swaps	663.0	913.0
Net exposure to variable rate instruments	2.5	23.0

Sensitivity of fixed rate instruments

The Group does not account for any fixed rate financial assets and financial liabilities at fair value through profit or loss and does not use derivative instruments in fair value hedges. Consequently, having regard to fixed rate instruments, a change in market interest rates at the reporting date would not affect profit or loss.

Sensitivity of variable rate instruments

An increase of 50 basis points in interest rates at 31 January 2015 would have increased equity by £8.7m (2014: £13.8m) and had no impact on profit or cash. A decrease to interest rates of the same magnitude will have an equal and opposite effect on equity and profit. This calculation assumes that the change occurred at the year end and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables remain constant and considers the effect of financial instruments with variable interest rates and the fixed rate element of interest rate swaps. The analysis is performed on the same basis for all comparative periods.

Notes to the consolidated financial statements continued

28 Financial risk management objectives and policies continued

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk in relation to its financial assets, outstanding derivatives and trade and other receivables. The Group assesses its counterparty exposure in relation to the investment of surplus cash and undrawn credit facilities. The Group primarily uses published credit ratings to assess counterparty strength and therefore to define the credit limit for each counterparty, in accordance with approved treasury policies.

The credit risk for the Group is limited as payment from customers is generally required before services are provided.

Credit risk in relation to deposits and derivative counterparties is managed by the Group's Treasury function in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. The limits are set to mitigate financial loss through any potential counterparty failure.

The Group's maximum exposure to credit risk for the components of the statement of financial position at each reporting date is the carrying amount except for derivative financial instruments. The Group's maximum exposure for financial derivative instruments is noted under liquidity risk.

The ageing analysis of trade receivables is as follows:

	Total £m	Neither past due nor impaired £m	Past due but not impaired		
			< 30 days £m	30 – 60 days £m	60+ days £m
2015	156.4	143.7	5.2	1.7	5.8
2014	134.1	128.2	5.3	0.3	0.3

The movements in the provision for the collective impairment of receivables are as follows:

	2015 £m	2014 £m
At 1 February	3.6	4.4
Charge for the year	1.3	2.7
Utilised	(1.8)	(3.5)
Unused amounts reversed	(0.9)	–
At 31 January	2.2	3.6

28 Financial risk management objectives and policies continued

Liquidity risk

Liquidity risk is the risk that the Group either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure them only at excessive cost. The Group's approach to managing liquidity risk is to evaluate current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and headroom on its working capital facilities.

The table below analyses the maturity of the Group's financial liabilities on a contractual undiscounted cash flow basis and includes any associated debt service costs. The analysis of non-derivative financial liabilities is based on the remaining period at the reporting date to the contractual maturity date.

At 31 January 2015:

	On demand £m	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
Loans and borrowings	–	182.1	184.7	2,691.7	1,183.0	4,241.5
Obligation under finance leases	–	36.6	10.1	5.7	1.8	54.2
Other payables and accruals	–	64.1	–	–	–	64.1
Trade payables	–	114.1	–	–	–	114.1
	–	396.9	194.8	2,697.4	1,184.8	4,473.9

Interest rate swaps used for hedging

Assets (inflow)	–	(6.2)	(0.3)	(14.2)	–	(20.7)
Liabilities	–	13.2	3.8	13.6	–	30.6
	–	7.0	3.5	(0.6)	–	9.9
	–	403.9	198.3	2,696.8	1,184.8	4,483.8

At 31 January 2014:

	On demand £m	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
Loans and borrowings	–	204.5	218.5	2,039.9	2,297.2	4,760.1
Obligation under finance leases	–	13.5	5.5	3.0	–	22.0
Other payables and accruals	–	68.3	–	–	–	68.3
Trade payables	–	115.1	–	–	–	115.1
	–	401.4	224.0	2,042.9	2,297.2	4,965.5

Interest rate swaps used for hedging

Assets (inflow)	–	(7.5)	(0.4)	(40.1)	–	(48.0)
Liabilities	–	19.4	4.9	24.3	–	48.6
	–	11.9	4.5	(15.8)	–	0.6
	–	413.3	228.5	2,027.1	2,297.2	4,966.1

Notes to the consolidated financial statements continued

28 Financial risk management objectives and policies continued

Capital management

The Group's objectives when managing capital are:

- › To safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders
- › To further strengthen the AA as the pre-eminent motoring services organisation in the UK
- › To revolutionise the customer experience through investing in and embracing new technologies
- › To reduce Group borrowings and associated interest costs
- › To provide an adequate return to shareholders

The Group monitors capital using net debt to Trading EBITDA ratios. The key ratios are Senior Secured Debt to Trading EBITDA, Net Debt excluding PIK notes to Trading EBITDA and Net Debt to Trading EBITDA as calculated below:

	2015 £m	2014 £m
Senior Term Facility	663.0	913.0
Class A notes	1,725.0	1,475.0
Less: AA Intermediate Co Limited group cash and cash equivalents	(261.2)	(144.7)
Net Senior Secured Debt ¹	2,126.8	2,243.3
Class B notes	655.0	655.0
Finance lease obligations	50.4	20.0
Net Debt excluding PIK notes ²	2,832.2	2,918.3
PIK notes	175.0	350.0
Less: AA plc Group cash and cash equivalents ³	(40.3)	(58.5)
Total Net Debt	2,966.9	3,209.8
Net debt ratio ⁴	6.9x	7.6x
Class B leverage ratio ⁵	6.6x	6.9x
Senior leverage ratio ⁶	4.9x	5.3x

1 Principal amounts of the Senior Term Facility and Class A notes less AA Intermediate Co Limited group cash and cash equivalents

2 Principal amounts of the Senior Term Facility, Class A notes, Class B notes and finance leases less AA Intermediate Co Limited group cash and cash equivalents

3 Total cash and cash equivalents for the Group excluding the value reported as the AA Intermediate Co Limited group cash and cash equivalents

4 Ratio of Total Net Debt to Trading EBITDA for the last 12 months

5 Ratio of Net Debt excluding PIK notes to Trading EBITDA for the last 12 months

6 Ratio of Net Senior Secured Debt to Trading EBITDA for the last 12 months

The Senior Term Facility, Class A notes and Class B notes have interest cover covenants attached to them. The Group was in compliance with all covenants throughout the period and as at 31 January 2015.

The Group includes regulated companies which are required to hold sufficient capital to meet acceptable solvency levels based on the relevant regulators' requirements (see note 17). There are no other externally imposed capital requirements.

29 Commitments and contingencies

Operating lease commitments

Future minimum rentals payable under non-cancellable operating leases as at 31 January are, as follows:

	Land and buildings		Plant and machinery	
	2015 £m	2014 £m	2015 £m	2014 £m
Leases expiring:				
Within one year	1.6	0.8	–	3.0
Between one and five years	13.6	16.9	–	1.5
After five years	30.0	35.6	–	–
	45.2	53.3	–	4.5
Income from operating sub-leases	(6.2)	(9.3)	–	–
Amounts included in onerous lease provisions	(8.5)	(17.9)	–	–
	30.5	26.1	–	4.5

Where a property is no longer used by the Group for operational purposes, tenants are sought to reduce the Group's exposure to lease payments. Where the future minimum lease payments are in excess of any expected rental income due, a provision is made.

Finance lease commitments

The Group has finance leases contracts for various items of plant and machinery. Future minimum lease payments under finance leases contracts together with the present value of the net minimum lease payments are as follows:

	2015		2014	
	Present value of payments £m	Minimum payments £m	Present value of payments £m	Minimum payments £m
Within one year	34.6	36.6	12.1	13.5
Between one and five years	15.8	17.6	7.9	8.5
Total minimum lease payments	50.4	54.2	20.0	22.0
Less amounts representing finance charge	–	(3.8)	–	(2.0)
Present value of minimum lease payments	50.4	50.4	20.0	20.0

Commitments

Amounts contracted for but not provided in the financial statements amounted to £4.9m (2014: £0.6m).

30 Principal subsidiary undertakings

The principal operating subsidiary undertakings of AA plc, all of which are wholly owned except where stated, are listed below. There is no difference between the percentage holding and percentage voting rights in ordinary shares. All of the principal subsidiary undertakings of AA plc are indirectly held by the Company, with the exception of AA Mid Co Limited, AA PIK Co Limited and AA Reinsurance Company Limited.

Company	Country of registration	Nature of business
Principal subsidiary undertakings		
Automobile Association Developments Limited	England	Roadside & driving services
Automobile Association Insurance Services Limited	England	Roadside & insurance services
AA Corporation Limited	England	Head office functions
AA Financial Services Limited	England	Insurance Services
Drivetech (UK) Limited	England	Driving services
AA Media Limited	England	Roadside services
AA Ireland Limited	Ireland	Roadside & insurance services
AA Reinsurance Company Limited	Guernsey	Insurance underwriting
AA Mid Co Limited	England	Holding company
AA Intermediate Co Limited	England	Holding company
AA Acquisition Co Limited	England	Holding company
AA Senior Co Limited	England	Holding company and group borrowings
AA PIK Co Limited	Jersey	Group borrowings
AA Bond Co Limited	Jersey	Group borrowings

Notes to the consolidated financial statements continued

31 Auditor's remuneration

	2015 £m	2014 £m
Audit of these financial statements	0.2	0.1
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	0.7	0.7
Corporate finance services	2.1	2.1

Corporate finance services mainly relate to reporting accountant work that would normally be undertaken by the auditor.

32 Related party transactions

Following the refinancing in July 2013, under the Umbrella Services Agreement, the Group and Acromas agreed to procure that their respective groups provide specified services to the other, including fleet management, sales and marketing services relating to certain AA financial products, and IT services. There are also a number of specific additional contracts in place for the provision of services between various members of the respective groups including the provision of underwriting by Acromas Insurance Company Limited ("AICL"), for various AA Group products, such as motor insurance, home insurance and home emergency cover. Following the IPO in June 2014, the Acromas group ceased to be a related party.

The following table provides the total value of transactions that have been entered into with related parties during each financial year.

Transactions with other Acromas group companies:

	2015 £m	2014 £m
Sales to the Acromas group		
Insurance underwriting related	7.0	14.8
Non-insurance underwriting related	0.4	0.8
Purchases from the Acromas group		
Insurance underwriting related	18.3	52.7
Non-insurance underwriting related	2.7	14.4
Reinsurance transactions with the Acromas group		
Reinsurance premium receipts	0.2	0.3
Reinsurance claims payments	0.2	0.8
Sale of fixed asset investments	5.0	–

Transactions with associates:

		2015 £m	2014 £m
A.C.T.A. S.A.	Call handling fees paid	2.2	2.2
	Amounts payable at 31 January	0.1	–
A.R.C. Europe S.A.	Registration fees paid	0.6	0.5
	Amounts payable at 31 January	0.4	0.2

33 Compensation of key management personnel of the Group

The amounts recognised as an expense during the financial year in respect of key management personnel are as follows:

	2015 £m	2014 £m
Short-term employee benefits	6.1	6.9
Post-employment pension and medical benefits	0.4	0.2
Share-based payments - MVPS	0.9	–
Termination payments	1.5	–
Total compensation paid to key management personnel	8.9	7.1

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group and comprise the Executive Chairman, Chief Financial Officer, Non-Executive Directors and the heads of major business units and administrative functions.

34 Share-based payments and acquisition earn-out costs

	2015 £m	2014 £m
Acquisition earn-out costs	0.3	2.2
Share-based payments – MVPS	0.9	–
Share-based payments – staff share incentive plan	0.7	–
	1.9	2.2

Management value participation shares (MVPS)

On 23 June 2014, the Company issued 24 million convertible, redeemable MVPS shares to certain key members of senior management at £0.001 per share. These shares are divided into three classes and are convertible into ordinary shares following satisfaction of a Total Shareholder Return (TSR) performance condition of 12% per annum compound growth against the admission price of £2.50 which is tested on the third, fourth and fifth anniversaries of admission to the London Stock Exchange.

The MVPS share-based payments are equity settled. The following table illustrates the number and fair value of the MVPS shares:

	Vesting date	No. of shares	2015 Fair value per share £
A1 shares	23 June 2017	8,000,000	0.25
B1 shares	23 June 2018	8,000,000	0.26
C1 shares	23 June 2019	8,000,000	0.26
Total		24,000,000	

The A1 shares can also be converted on the 4th or 5th anniversary of admission and the B1 shares can also be converted on the 5th anniversary of admission.

Notes to the consolidated financial statements continued

34 Share-based payments and acquisition earn-out costs continued

The MVPs were valued using a binomial model and 25% volatility assumption to calculate the fair value using the following risk-free interest rates for the six months ended 31 July 2014:

	Vesting period		
	3-year	4-year	5-year
Risk-free interest rate (%)	0.88	1.35	1.82

The expected volatility reflects the assumption that the historical volatility is indicative of future trends which may not necessarily be the actual outcome.

Staff share incentive plans

On 29 August 2014 and 30 October 2014, AA plc launched a Share Incentive Plan (SIP) and an International Share Incentive Plan (ISIP) respectively.

Under the SIP, employees are able to buy Partnership shares by making weekly or monthly payments into the SIP which are accumulated over a period of 12 months and then used to purchase AA shares at the lower of the closing price on 29 August 2014 and the market value of the shares when they are acquired at the end of the 12 month period. In addition, for every Partnership share an employee purchases the Company will match this on a 1:1 basis (Matching Shares). The Matching Shares are awarded at the same time as the Partnership shares are purchased at the end of the 12 month accumulation period.

Under the ISIP, employees are able to buy Partnership shares by making weekly or monthly contributions for a 12 month period starting on 30 October 2014 which are used to purchase AA shares at their market value each month. In addition, for every Partnership share an employee purchases, the Company will match this on a 1:1 basis. The employee becomes entitled to the Matching Shares at the end of a three year period following the purchase of the Partnership shares.

The SIP and ISIP share-based payments are equity settled. The following table illustrates the fair value and vesting period of the SIP:

Share type	Award date	Vesting date	No. of shares ¹	Fair value per share £	Charge for year ended 31 January 2015 £m
Partnership shares	29 August 2014	29 August 2015	2,171,973	0.23	0.2
Matching shares	29 August 2014	29 August 2018	1,802,276	2.58	0.5
			3,974,249		0.7

¹ The number of shares shown above is the estimated number as at 31 January 2015.

The SIP was valued using a Black Scholes model and 21% volatility assumption to calculate the fair value using a risk-free interest rate for the year ended 31 January 2015 of 0.55%.

The expected volatility reflects the assumption that the historical volatility is indicative of future trends which may not necessarily be the actual outcome.

35 Ultimate parent undertaking and controlling party

Following the admission of AA plc to the London Stock Exchange on 26 June 2014, AA plc became the ultimate controlling party and parent undertaking of the Group.

36 Accounting standards, amendments and interpretations

New accounting standards, amendments and interpretations adopted in the year

In the year ended 31 January 2015 the Group did not adopt any new standards or amendments issued by the IASB or interpretations issued by the IFRS Interpretations Committee (IFRS IC) that have had a material impact on the consolidated financial statements. Other new standards, amendments and interpretations adopted, that have not had a material impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements, were:

	Effective date
› IFRS 10, IFRS 12 and IAS 27 Investment Entities (Amendments)	1 January 2014
› IFRS 11 Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11	1 January 2014
› IFRS 12 Disclosure of interests in other entities	1 January 2014
› IAS 28 (revised 2011), Associates and Joint ventures	1 January 2014
› IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32	1 January 2014
› IAS 36 Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36	1 January 2014
› IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39	1 January 2014
› IFRIC 21 Levies	1 January 2014

New accounting standards, amendments and interpretations not yet adopted

A number of new standards, amendments and interpretations, which have not been applied in preparing these financial statements, have been issued and are effective for annual reports beginning after 1 February 2014:

	Effective date
› IAS 19 Defined Benefit Plans: Employee Contributions – Amendments to IAS 19	1 July 2014
› IFRS 11 Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11	1 January 2016
› IFRS 14 Regulatory Deferral Accounts	1 January 2016
› IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38	1 January 2016
› IAS 27 Equity Method in Separate Financial Statements – Amendments to IAS 27	1 January 2016
› IFRS 15 Revenue from Contracts with Customers	1 January 2017
› IFRS 9 Financial Instruments	1 January 2018

37 Events after the reporting period

The Board has approved their intention to raise £200m of additional equity and £735m of new loan notes, using the proceeds combined with existing cash resources to pay off all of the remaining £175m of PIK notes, all £655m of the Class B notes and £209m of the Senior Term Facility.

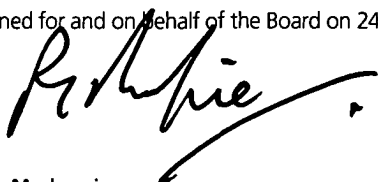
As announced in the March Budget new anti-avoidance legislation will be introduced to reduce, in certain circumstances, the ability of companies to utilise brought forward losses after 18 March 2015. Until final legislation has been enacted it is uncertain whether the group's losses, and the £22m of deferred tax provided on them, will be affected by this change but we will continue to review the value of the asset as information becomes available going forward.

Company balance sheet

as at 31 January

	Note	2015 £m	2014 £m
Fixed assets			
Investment in subsidiaries	2	798.7	799.5
Current assets			
Debtors	3	3.9	1.9
Cash at bank and in hand	4	33.7	56.9
		37.6	58.8
Creditors falling due within one year	5	(176.0)	(352.7)
Net current liabilities		(138.4)	(293.9)
Total assets less current liabilities		660.3	505.6
Creditors falling due in more than one year	6	(1.0)	(1.6)
Net assets		659.3	504.0
Capital and reserves			
Called up share capital	7	0.6	0.2
Share premium		199.7	0.8
Profit and loss account		459.0	503.0
Total capital employed	8	659.3	504.0

Signed for and on behalf of the Board on 24 March 2015 by



Bob Mackenzie
Executive Chairman



Martin Clarke
Chief Financial Officer

The accompanying notes are an integral part of this Company balance sheet.

Notes to the Company financial statements

1 Company accounting policies

a) Accounting convention

The Company financial statements are prepared under the historical cost convention and in accordance with applicable UK generally accepted accounting standards as defined in the Companies Act 2006 section 464 and have been applied consistently across all periods.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

b) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the profit and loss account.

c) Investments

Fixed asset investments are included in the balance sheet at cost, less any provisions for permanent impairment.

Investments in Group undertakings are stated at the lower of cost and net realisable value.

The carrying amounts of the Company's assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its income-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account unless they arise on a previously revalued fixed asset.

The recoverable amount of fixed assets is the greater of their net realisable value and value in use. In assessing value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the rate of return expected on an investment of equal risk. For an asset that does not generate largely independent income streams, the recoverable amount is determined for the income-generating unit to which the asset belongs.

d) Borrowings

All borrowings are initially stated at the fair value of the consideration received after deduction of issue costs. Issue costs are charged to the profit and loss account over the term of the borrowings and represent a constant proportion of the balance of capital repayments outstanding.

2 Investments

	2015 £m	2014 £m
At 1 February	799.5	20.5
Additions	–	5.0
Adjustment to prior year acquisitions	(0.8)	–
Increase from release of intercompany receivable	–	1,641.6
Impairment of investment	–	(867.6)
At 31 January	798.7	799.5

On 2 July 2013 the Company acquired the entire share capital of AA Reinsurance Company Limited at a cost of £2.5m as part of a Group reorganisation.

As part of the whole business securitisation (WBS), the Company entered into a deed of release to release AA Mid Co Limited's liability to it of £1,641.6m, resulting in an increase to the value of the Company's investment. Following the subsequent payment by AA Mid Co Limited of a dividend of £3.9bn the investment held by the Company was impaired by £867.6m. This impairment has been recognised within the profit and loss account.

On 16 January 2014 the Group acquired the entire share capital of VVCR Europe Holding B.V, a provider of driving services. The consideration for the transaction (including costs) of £2.5m was settled in cash, with the exception of £1.8m deferred consideration to be settled in the future. In the year ended 31 January 2015, the investment in VVCR Europe Holding B.V was adjusted by £0.8m reflecting the lower amount of deferred consideration now expected to be paid.

Notes to the Company financial statements continued

3 Debtors

	2015 £m	2014 £m
Trade debtors	0.1	–
Group relief receivable	3.8	1.9
	3.9	1.9

4 Cash

	2015 £m	2014 £m
Cash – unrestricted	15.2	1.5
Cash – restricted	18.5	55.4
	33.7	56.9

Cash – restricted includes £18.5m (2014: £55.4m) held as pre-funded interest to cover interest payments on the PIK notes held by subsidiary undertakings and cannot be used for any other purpose.

5 Creditors falling due within one year

	2015 £m	2014 £m
Amounts owed to subsidiary undertakings	174.8	352.2
Accruals	1.2	0.3
Other creditors	–	0.2
	176.0	352.7

The terms of the amounts owed to subsidiary undertakings reflect the terms on the PIK notes held by a subsidiary undertaking. In the year ended 31 January 2015, £175.0m of PIK notes were repaid. These amounts are unsecured, have an interest rate of 9.5% and are repayable on 6 November 2019.

6 Creditors falling due after one year

	2015 £m	2014 £m
Other creditors	1.0	1.6

All amounts are due within five years.

7 Share capital

	2015 £m	2014 £m
Allotted, called up and fully paid		
1,000,000 'A' ordinary shares of £0.10 each	–	0.1
1,015,344 'B' ordinary shares of £0.10 each	–	0.1
554,000,001 ordinary shares of £0.001 each	0.6	–
	0.6	0.2

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

On 17 June 2014, the A and B ordinary shares were reorganised from 2,015,344 £0.10 shares to 201,534,400 ordinary shares of £0.001 each.

On 20 June 2014, the Company undertook a bonus issue of 267,745,600 shares of £0.001 resulting in a transfer of £0.3m from its share premium account to share capital.

On 26 June 2014, the Company issued 84,720,001 shares at a premium of £199.2m including issue costs.

The Company also issued 24 million Management Value Participation Shares (see note 23 of the consolidated financial statements for further information on these shares).

8 Reconciliation of movements in shareholders' funds

	2015 £m	2014 £m
(Loss)/profit for the financial year	(44.0)	3,074.6
Capital contribution	–	0.2
Dividends paid	–	(2,571.9)
Issue of share capital	199.3	–
Net change in shareholders' funds	155.3	502.9
Shareholders' funds at 1 February	504.0	1.1
Shareholders' funds at 31 January	659.3	504.0

Profit for the financial year comprises administrative operating costs of £0.6m, interest receivable of £0.4m, exceptional costs of £13.8m relating to the IPO, intercompany interest payable of £38.2m and a tax credit of £8.2m.

In the prior year, profit for the financial year comprised dividends received of £3,948.5m less impairment charges of £867.6m (see note 2), intercompany interest payable of £8.2m and a tax credit of £1.9m.

Intercompany interest payable relates to PIK notes.

The capital contribution relates to a realised gain following the forgiveness of amounts due to a parent undertaking.

Shareholder Information

Share price information

The Company's ordinary shares are listed on the London Stock Exchange. Share price information can be found on the website **www.theaa.com**

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SEDOL Number: BMSKRPJ9

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Registrar

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network extras) Lines are open Monday – Friday, 9.00am – 5.30pm
(from outside the UK: +44 (0) 208 639 3399)

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Financial Calendar

Annual General Meeting 9 June 2015

Warning to Shareholders

Share fraud includes scams where investors are called and offered shares that often turn out to be worthless or non-existent, or an inflated price for shares that they own. These calls often require you to make a quick decision and come from fraudsters operating in 'boiler rooms' that are often based abroad. High pressure sales tactics can also come by email, post, word of mouth or at a seminar. Scams are also advertised in newspapers, magazines or online and appear as if they are genuine investment opportunities.

In addition, be aware of money recovery scams which can be initiated by someone claiming to be from the police or a government agency. Organisations' names vary but can include the National Fraud Intelligence Bureau and the US Securities & Exchange Commission. You should check the latest information on the Financial Conduct Authority (FCA) website at **www.fca.org.uk/consumers/scams/what-to-do-if-you-are-scammed** for more details of scams pretending to be the police or a government agency.

The FCA found that even experienced investors have been caught out by share fraud and on average, around £200 million is lost in the UK each year.

If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should take these steps before handing over any money:

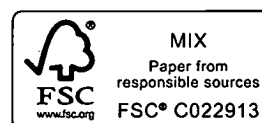
1. Get the name of the person and organisation contacting you
2. Check the Financial Services Register (FSR) at **www.fca.org.uk/firms/systemsreporting/register/search** to ensure they are authorised
3. Use the details on the FSR to contact the firm
4. If you are based in the UK, call the FCA Consumer Helpline on 0800 111 6768 if there is no telephone number on the FSR or you are told it is out of date
5. Search the FCA's list of known unauthorised firms and individuals to avoid doing business with
6. Remember that law enforcement and other agencies will not contact members of the public asking for their bank details or money
7. Remember: if it sounds too good to be true, it probably is.

If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme (FSCS) if things go wrong. If you are approached about a share scam you should tell the FCA using the share fraud reporting form at **www.fca.org.uk/consumers/scams**, where you can find out about the latest investment scams. If you are based in the UK, you can also call the FCA Consumer Helpline on 0800 111 6768. If you have already paid money to share fraudsters you should contact Action Fraud online at **www.actionfraud.police.uk** or, if you are based in the UK, by telephone on 0300 123 2040.

Shareholder queries and information

Financial information about the company including the annual report, regulatory announcements and corporate governance information is available on our website: **www.theaapl.com**

Alternatively please contact us at investor.relations@theaa.com



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This report has been printed on Claro Bulk which is FSC® certified and made from 100% Elemental Chlorine Free (ECF) pulp. The mill and the printer are both certified to ISO 14001 environmental management system and registered to EMAS the eco management Audit Scheme. The report was printed using vegetable based inks by a CarbonNeutral® printer.