AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JANUARY 2016

Registered number: 02414212

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

FOR THE YEAR ENDED 31 JANUARY 2016

STRATEGIC REPORT

The directors present their strategic report, directors' report and audited financial statements of Automobile Association Insurance Services Limited ("the Company") for the year ended 31 January 2016.

PRINCIPAL ACTIVITY, REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The Company is a wholly owned subsidiary of AA Corporation Limited.

The principal activity of the Company is the provision of insurance intermediary services. The Company is authorised and regulated as a General Insurance Intermediary by the Financial Conduct Authority (FCA).

As shown in the Company's profit and loss account, the Company's turnover increased by 13% to £284.4m during the current year due to the introduction of the new Administration and Arrangement Fee (AAF) on Roadside. Profit before taxation increased by 46% to £147.5m over the same period as a result of the increase in revenue and £5.3m of costs now recharged to a fellow subsidiary in connection with the AAF.

During the year under review, the net solvency capital of the Company for regulatory purposes, represented by net assets, reduced to £245.3m (2015: £364.4m) due to the payment of a dividend of £236.6m (2015: £80.0m) offset by £117.5m (2015: £79.6m) profit for the year.

The directors are pleased with the performance of the Company in the year and expect the Company to continue to meet solvency requirements set by the FCA.

For decision making and internal performance management, management's key performance metric is earnings before exceptionals, interest, tax, depreciation and amortisation (EBITDA). EBITDA increased by 50% to £164.4m during the current year.

DIVIDENDS

A dividend of £236.6m was paid during the year (2015 £80.0m).

RISK MANAGEMENT FRAMEWORK

The business has developed an embedded enterprise risk management process that facilitates the identification, assessment, escalation and mitigation of the Company's risk exposure across every aspect and activity of the business. This framework enables the business to manage risk using predefined assessment criteria to ensure residual risk levels are in line with the Board's agreed risk appetite. The principal risks have been grouped into the following categories:

Competitive Risk
The Company continues to operate in highly competitive markets. This could lead to increased price competition with the effect of reduced margins or reduced market share. These risks are managed through promotion of the group brand and continuing efforts to improve efficiency and reduce costs.

Financial Risk
The Company is part of the AA plc group and its financial risks are managed centrally by the Group Treasury team taking into account the Company's position as part of the group with due consideration being given to the impact of transactions with other group entities.

The Company is an obligor of the financial indebtedness of the AA Intermediate Co Limited group, a parent undertaking of the Company and part of the AA plc group. Its viability and financial success is therefore tied to the viability and financial success of the AA Intermediate Co Limited group. No material uncertainties have been identified that would cast doubt over the financial success of the AA Intermediate Co Limited group.

Credit Risk
Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Due to the retail nature of the Company's customer base, the exposure to any individual counterparty is assessed as very low. The Company has in place debt collection policies and procedures to minimise the likelihood of widespread defaults occurring.

Brand Risk
The Company recognises that the AA brand is a key differentiator and source of competitive advantage, and brand damage from low quality products or services could have an adverse impact on the Company. The Company has in place policies and procedures to protect the brand at all times.

Regulatory Risk
The Company is required to comply with FCA regulations. A failure to comply with these regulations could cause the Company to incur fines or be unable to continue trading.

Operational Risk
The key operational risks the Company faces include call centre disruption through loss of telephony or IT infrastructure, loss of physical infrastructure (such as building loss or access restrictions) cyber attack on our systems and data or insufficient staff being available to handle call volumes.

Risk of technological change

An 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 data and system security particularly against unauthorised access. Our management team is driving the overall programme supported by our risk management processes.

This IT transformation project will 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.

RISK MANAGEMENT FRAMEWORK (continued)

The business has put in place rigorous procedures and controls designed to prevent significant risks to the business occurring or to mitigate their effects if they should occur. These controls are monitored both by the Compliance and Internal Audit functions to ensure they are working effectively.

BY ORDER OF THE BOARD

Janet Connor

Janet Connor
DIRECTOR
10 June 2016

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

FOR THE YEAR ENDED 31 JANUARY 2016

DIRECTORS' REPORT

DIRECTORS

The directors who held office during the year were as follows:

M A Clarke (Appointed 28 May 2015)
J Connor
A K Gupta (Resigned 31 March 2016)
O J Kunc
M S Lloyd
R D Mackenzie
C E Riley
P Robson (Resigned on 31 May 2015)
J C Roe
M F Millar (Company secretary)

DIRECTOR'S INDEMNITY

The Company maintains directors' and officers' liability insurance, which gives appropriate cover for any legal action brought against its directors and officers. The Company has also granted indemnities to its directors and officers against all losses and liabilities incurred in the discharge of their duties, to the extent permitted by law.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, Directors' 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). 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 the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

GOING CONCERN

The Company's business activities and its exposure to financial risk are described in the strategic report on pages 1-3.

The directors believe that the Company has adequate financial resources due to the Company's own net current asset position as well as the available cash resources of the AA plc group which can be drawn upon. The directors believe that the Company is well placed to manage its business risks successfully using the risk management framework described in the strategic report and that the residual risks being taken by the Company are commensurate with its financial resources.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

RE-APPOINTMENT OF AUDITOR

In accordance with section 487(2) of the Companies Act 2006, the Auditor Ernst and Young LLP is deemed reappointed.

DISCLOSURE OF INFORMATION TO AUDITOR

Each current director has made enquiries of their fellow director and the Company's auditor and taken all the steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Relevant audit information is that information needed by the auditor in connection with preparing its report. So far as each director approving this report is aware, and based on the above steps, there is no relevant audit information of which the auditor is unaware.

EVENTS AFTER THE REPORTING PERIOD

On the 8 February 2016, the Company paid a dividend of £90m to its parent, AA Corporation Limited.

BY ORDER OF THE BOARD

Janet Connor

Janet Connor
DIRECTOR
10 June 2016

Registered Office:
Fanum House
Basing View
Basingstoke
Hampshire
RG21 4EA

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

We have audited the financial statements of Automobile Association Insurance Service Limited for the year ended 31 January 2016 which comprise the Income Statement, the Statement of Financial Position, the Statement of Changes in Equity and the related note 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework". 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.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities as set out on page 4, 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 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 Financial Statements 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 financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 January 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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.
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements 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.

Ernst & Young LLP

Neeta Ramudaram (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London
10 June **2016**

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 JANUARY

	Notes	2016 £m	2015 £m
REVENUE	3	**284.4**	252.8
OPERATING COSTS			
Administrative expenses		**(136.8)**	(151.6)
OPERATING PROFIT	4	**147.6**	101.2
Trading EBITDA		**164.4**	109.7
Amortisation and depreciation		**(4.0)**	(5.2)
Exceptional items		**(12.8)**	(3.3)
OPERATING PROFIT		**147.6**	101.2
Finance income	8	**0.2**	0.1
Finance costs	9	**(0.3)**	(0.1)
		147.5	101.2
Tax expense	10	**(30.0)**	(21.6)
PROFIT FOR THE FINANCIAL YEAR		**117.5**	79.6

All income and expenditure arises from continuing operations.

There are no gains and losses other than those passing through the income statement, therefore no separate statement of comprehensive income is presented.

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

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 JANUARY

	Notes	2016 £'m	2015 £'m
NON-CURRENT ASSETS			
Intangible assets	12	3.8	6.0
Property, plant and equipment	13	10.2	8.9
Deferred tax asset	11	0.5	0.6
		14.5	15.5
CURRENT ASSETS			
Inventories		0.1	0.2
Trade and other receivables	14	334.6	499.2
Cash and cash equivalents		6.0	6.1
		340.7	505.5
TOTAL ASSETS		355.2	521.0
CURRENT LIABILITIES			
Trade and other payables	15	(108.4)	(152.2)
Provisions	16	(0.8)	(3.9)
		(109.2)	(156.1)
NON-CURRENT LIABILITIES			
Finance lease obligations	18	(0.4)	-
Provisions	16	(0.3)	(0.5)
		(0.7)	(0.5)
TOTAL LIABILITIES		(109.9)	(156.6)
NET ASSETS		245.3	364.4
EQUITY			
Called up share capital	17	19.0	19.0
Retained earnings		226.3	345.4
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS		245.3	364.4

Signed for and on behalf of the board of directors by:

Janet Connor

Janet Connor
DIRECTOR

10 June 2016

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

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 JANUARY

	Share capital £m	Retained earnings £m
At 1 February 2014	19.0	345.8
Profit for the year	-	79.6
Dividends paid	-	(80.0)
At 31 January 2015	**19.0**	**345.4**
Profit for the year	-	117.5
Dividends paid	-	(236.6)
At 31 January 2016	**19.0**	**226.3**

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Presentation of financial statements

Automobile Association Insurance Services Limited is incorporated and domiciled in England and Wales.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS101). The financial statements are prepared under the historical cost convention.

The financial statements are prepared in Sterling and are rounded to the nearest £100,000.

2 Accounting policies

2.1 Basis of preparation

The Company has transitioned to FRS 101 from previously extant UK Generally Accepted Accounting Practice for all periods presented. As a consequence of adopting FRS 101, the Company has made one restatement to the comparatives with regards to recognition and measurement and has required amendments to presentation and disclosures in the accounts. The Company has early adopted Statutory Instrument 2015/980.

The Company has restated the comparatives for the recognition of capital gains rolled over of £0.5m. This has resulted in a credit to the deferred tax asset and debit to retained earnings as at the date of transition, 1 February 2014.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 January 2016.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- IAS 1 paragraphs 10(d) and 10(f),
- IAS 1 paragraph 16 (statement of compliance with all IFRS),
- IAS 1 paragraph 38A (requirement for minimum of two primary statements, including cash flow statements),
- IAS 1 paragraph 111 (cash flow statement information),
- IAS 1 paragraphs 134-136 (capital management disclosures),
- IFRS 1 paragraphs 6 and 21,
- IAS 7 'Statement of cash flows',
- IFRS 7 'Financial Instruments Disclosures'.
- IAS 8 paragraphs 30 and 31,
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group,
- IAS 24 'Related party disclosures' (key management compensation).

2.2 Critical accounting estimates and judgements

Estimates 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 Company makes estimates and assumptions about the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Management have exercised judgement in applying the Company's accounting policies and in making critical estimates. The underlying assumptions on which these judgements are based, are reviewed on an on-going basis and include the basis for recognising revenue in relation to consumer roadside income.

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.

2.2 Critical accounting estimates and judgements *(continued)*

Revenue – Administration and arrangement fee (AAF)

Since June 2015, the Company has charged a separate fee, the AAF, to reflect its role in providing intermediary mediation services to consumer customers buying roadside assistance products. Management identified two performance obligations for the AAF. Firstly, arranging the policy, which is generally deemed to be complete on inception of the policy and the associated income is recognised upfront. The second performance obligation is that related to the on-going administration associated with the policy where the revenue is spread over the life of the policy. Management have allocated revenue against these two performance obligations in proportion to the costs incurred.

Revenue – Roadside commission

Prior to the AAF, a commission agreement was in place between the Company and a fellow subsidiary, Automobile Association Developments Limited. The commission was not separately identified as part of the overall fee to the customer. Management have exercised their judgement in allocating revenue against the related performance obligations and the commission received by the Company was spread over the life of the policy.

2.3 Significant accounting policies

a) Intangible assets

Intangible assets which are acquired separately are stated at cost.

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.

b) Software and development costs

Software development expenditures on an individual project are recognised as an intangible asset when the Company 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.

c) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Such costs include costs directly attributable to making the asset capable of operating as intended. Depreciation is provided on property, plant and equipment at rates calculated to write off the costs, less estimated residual value based on prices prevailing at date of acquisition of each asset evenly over its expected useful life as follows:

Freehold properties	50 years
Long leasehold properties	50 years
Short leasehold properties	over the period of the lease
Fixtures, fittings and equipment	3 – 20 years

The carrying value of tangible fixed assets is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

2.3 Significant accounting policies (continued)

d) Investments in subsidiaries

Investments in subsidiaries are valued individually at the lower of cost less any provision for impairment. Income from investments is recognised in the profit and loss account when it is receivable.

e) Inventories

Inventory is valued at the lower of cost or 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.

f) Revenue

Revenue represents amounts receivable for goods and services provided, excluding value added tax, insurance premium tax and trade discounts.

Commission income from third party insurers is recognised at the commencement of the period of risk. Additional commission from these insurers may be earned dependent upon the underwriting results of the business insured. This income is recognised when the results of this business can be determined reasonably. Fees received under contracts with breakdown policyholders for arrangement and administration services are allocated against the related performance obligations in proportion to the costs incurred. The arrangement fees are recognised upfront and ongoing administration fees are recognised over the life of the policy. Income from credit products is recognised over the period of the loan in proportion to the outstanding loan balance.

g) Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Company, and hire purchase contracts are capitalised in the balance sheet and are depreciated over the shorter of the lease term and the assets' useful lives. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts.

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

h) Provisions

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provision is made on a discounted basis where the time value of money is expected to be material.

Provisions for restructuring costs are recognised when the Company has a detailed formal plan for the restructuring that has been communicated to affected parties.

In relation to unoccupied properties, where a decision has been made prior to the period end to vacate the property, provision is made for future rent and similar costs net of rent income expected to be received up to the estimated date of final disposal.

2.3 Significant accounting policies (continued)

i) 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 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.

j) Trade receivables and trade payables

Trade receivables (excluding instalment debtors) and trade payables are not interest bearing and are recognised initially at fair value. Instalment debtors accrue interest on the month end balance. 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.

k) Cash and cash equivalents

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

l) Exceptional items

Exceptional items are events or transactions that fall within the operating activities of the Company 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 5 for further information on the nature of exceptional items.

3 REVENUE

Revenue represents amounts receivable for goods and services provided, excluding value added tax and trade discounts. Revenue is recognised at point of delivery of goods or on provision of service.

All revenue arises from one class of business within the United Kingdom. Revenue by destination is not materially different from turnover by origin.

4 OPERATING PROFIT

Operating profit is stated after charging:

	2016 £m	2015 £m
Staff costs recharged (note 6)	**73.4**	74.6
Amortisation of owned intangible assets	**2.9**	3.6
Depreciation of owned tangible fixed assets	**0.9**	1.1
Depreciation of leased tangible fixed assets	**0.2**	0.5
Operating lease rentals:		
- Land & Buildings	**0.2**	0.4
- Motor vehicles	**-**	0.1

Auditors' remuneration in respect of the audit of the Company's financial statements for the year ended 31 January 2016 amounted to £190,000 (2015: £160,000). The Company's auditor provided no services to the Company other than the annual audit during either the current or prior year.

Trading EBITDA is profit after tax as reported adjusted for amortisation, depreciation, taxation, exceptional items, finance income and finance costs and better reflects the Company's underlying performance.

5 EXCEPTIONAL ITEMS

	2016 £m	2015 £m
Exceptional costs	**12.8**	3.3

Exceptional costs in the current year were due to £0.1m gain on disposal of fixed assets, £0.4m onerous contract provision, £1.1m credit from the vacant property provision, £7.5m recharge of group exceptional costs and £6.1m restructuring costs. Exceptional costs in the year ended 31 January 2015 were due to £0.8m loss on disposal of fixed assets, £1.3m onerous contract provision and £1.2m additional charge to the vacant property provision.

6 STAFF COSTS

Staff costs during the year were as follows:

	2016 £m	2015 £m
Wages and salaries	**65.1**	65.8
Social security costs	**4.6**	5.0
Other pension costs	**3.7**	3.8
	73.4	74.6

Current year staff costs relate to those recharged from Automobile Association Developments Limited, a group company.

The average number of employees directly employed during the year was nil (2015: nil).

7 DIRECTORS' EMOLUMENTS

	2016 £m	2015 £m
Aggregate remuneration in respect of qualifying services	**3.3**	1.8
Compensation for loss of office	**-**	1.2
Contributions to money purchase schemes	**0.1**	0.1
	3.4	3.1
The amounts paid in respect of the highest paid director were as follows:	**1.5**	1.0

A K Gupta and P Robson were, and C E Riley, J Connor and J C Roe are, remunerated by the Company for their services as directors.

All other directors of the Company are also directors of the ultimate parent undertaking (AA plc) and/or fellow subsidiaries. These directors are remunerated by another company that is part of the AA plc group. As the directors do not believe that it is practicable to apportion this amount between their services as directors of the Company and their services as directors of the ultimate parent undertaking and fellow subsidiary companies, their full remuneration have been reflected in the disclosure above.

Retirement benefits are accruing for 2 (2015: 1) directors under a defined benefit scheme and nil (2015: 1) under a money purchase scheme.

8 FINANCE INCOME

	2016 £m	2015 £m
Other interest receivable	**0.2**	0.1

9 FINANCE COSTS

	2016 £m	2015 £m
Other interest payable	**0.3**	0.1

10 TAX EXPENSE

The major components of the income tax expense are:

	2016 £m	2015 £m
Current tax:		
- Current tax on income in the year	**29.8**	21.6
- Adjustments in respect of prior periods	**0.1**	0.2
Deferred tax:		
- Origination and reversal of temporary differences	**0.1**	(0.1)
- Adjustments in respect of prior periods	**(0.1)**	(0.1)
- Effect of tax rate change on opening balance	**0.1**	-
Total tax expense	**30.0**	21.6

The current tax includes £24.0m (2015: £21.6m) in respect of payments for group losses.

10 TAX EXPENSE (continued)

Reconciliation of tax expense to profit before tax multiplied by UK's corporation tax rate:

	2016 £m	2015 £m
Profit before tax	**147.5**	101.2
Tax at rate of 20.16% (2015: 21.32%)	**29.7**	21.6
Effects of:		
Permanent differences	**0.2**	(0.1)
Rate change	**0.1**	-
Adjustments to tax charge in respect of previous years	**-**	0.1
Income tax expense reported in the income statement	**30.0**	21.6

11 DEFERRED TAXATION

Deferred tax by type of temporary difference:

	Statement of financial position		**Income statement**	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Decelerated capital allowances	**0.7**	0.8	**0.1**	-
Other short term temporary differences	**0.2**	0.3	**0.1**	(0.2)
Capital gains rolled over	**(0.4)**	(0.5)	**(0.1)**	-
Deferred tax asset/(liability)	**0.5**	0.6	**0.1**	(0.2)

	£m
Deferred tax asset as at 1 February 2015	0.6
Tax expense recognised in the income statement	(0.1)
Deferred tax asset as at 31 January 2016	**0.5**

At the balance sheet date the UK corporation tax rate was set to reduce from 20% to 19% on 1 April 2017 and then to 18% on 1 April 2020. These rates have been enacted at the balance sheet date and used to calculate the deferred tax asset. On 16 March 2016 the Chancellor presented the 2016 budget in which he announced a reduction in the future corporation tax rate to 17% instead of 18% on 1 April 2020. The impact of this new rate is not expected to be material to the deferred tax balance in the accounts and has not been enacted at the balance sheet date.

12 INTANGIBLE ASSETS

	Software £m
Cost	
At 1 February 2015	26.6
Additions	0.7
At 31 January 2016	**27.3**
Amortisation	
At 1 February 2015	20.6
Charge for year	2.9
At 31 January 2016	**23.5**
Net book value	
At 31 January 2016	**3.8**
At 31 January 2015	6.0

Within Software £0.7m (2015: £nil) relates to assets under construction that are not amortised. Software additions comprise £0.1m (2015: £nil) in relation to internally developed assets and £0.6m (2015: £nil) in respect of separately acquired assets.

13 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings			
	Freehold £m	Short leasehold £m	Equipment and vehicles £m	Total £m
Cost				
At 1 February 2015	14.0	-	15.8	29.8
Additions	-	-	2.3	2.3
Disposals	-	-	(1.4)	(1.4)
At 31 January 2016	**14.0**	**-**	**16.7**	**30.7**
Depreciation				
At 1 February 2015	6.1	-	14.8	20.9
Charge for year	0.3	-	0.8	1.1
Disposals	-	-	(1.5)	(1.5)
At 31 January 2016	**6.4**	**-**	**14.1**	**20.5**
Net book value				
At 31 January 2016	**7.6**	**-**	**2.6**	**10.2**
At 31 January 2015	7.9	-	1.0	8.9

13 PROPERTY, PLANT AND EQUIPMENT (continued)

Equipment and vehicles include the following assets held under finance leases:

	2016 £m	2015 £m
Cost	**1.1**	1.9
Accumulated depreciation	**(0.4)**	(1.6)
Net book value	**0.7**	0.3

14 TRADE AND OTHER RECEIVABLES

	2016 £m	2015 £m
Amounts receivable within one year		
Trade receivables	**80.7**	86.1
Amounts owed by group undertakings	**252.5**	411.4
Other receivables	**0.8**	0.7
Prepayments and accrued income	**0.6**	1.0
	334.6	499.2

Amounts owed by group undertakings all relate to undertakings within the AA Intermediate Co Limited group. The balances are unsecured, have no repayment terms and bear no interest.

Included in trade debtors are amounts of £70.3m (2015: £75.3m) relating to amounts due from insurance broking customers.

15 TRADE AND OTHER PAYABLES

	2016 £m	2015 £m
Trade creditors	75.3	76.9
Amounts owed to group undertakings	-	22.6
Accruals and deferred income	31.2	51.1
Other taxation and social security	1.0	0.9
Other creditors	0.8	0.6
Obligations under finance leases and hire purchase contracts (note 18)	0.1	0.1
	108.4	152.2

Included in trade creditors are amounts of £71.8m (2015: £75.8m) relating to amounts due to underwriters in respect of insurance broking activities.

16 PROVISIONS FOR LIABILITIES

	Other provisions £m	Vacant property provisions £m	Restructuring provisions £m	Total £m
At 1 February 2014	-	3.8	0.3	4.1
Utilised during the year	-	(1.6)	(0.1)	(1.7)
Charge for the year	0.8	1.2	-	2.0
At 31 January 2015	**0.8**	**3.4**	**0.2**	**4.4**
Provision utilised	(0.3)	(1.7)	-	(2.0)
Released unutilised during the year	-	(1.1)	(0.2)	(1.3)
Charge for the year	-	-	-	-
At 31 January 2016	**0.5**	**0.6**	**-**	**1.1**
Current	0.5	0.3	-	0.8
Non-current	-	0.3	-	0.3
At 31 January 2016	**0.5**	**0.6**	**-**	**1.1**
Current	0.8	2.9	0.2	3.9
Non-current	-	0.5	-	0.5
At 31 January 2015	**0.8**	**3.4**	**0.2**	**4.4**

Other provisions relate to a provision for an onerous contract. The property provision brought forward related to the closure of a network of high street outlets and the closure of one call centre and relates to future lease costs of vacant properties for the remaining period of the lease, net of expected sub-letting income. The majority of this provision will be used during the next two years. The restructuring provision related to redundancy costs arising from the restructuring of operations.

17 CALLED UP SHARE CAPITAL

Allotted, called up and fully paid	**2016 £m**	2015 £m
19,000,000 ordinary shares of £1 each	**19.0**	19.0

The Company has 20,000,000 authorised ordinary shares of £1 each.

As at 31 January 2016, the Company had distributable reserves of £226.3m (2015: £345.4m).

During the year, a dividend of £12.45 per share was paid to the parent entity, AA Corporation Limited.

18 GUARANTEES AND COMMITMENTS

Operating leases

Future minimum rentals payable under non-cancellable operating leases as at 31 January are as follows:

	Land and buildings	
	2016 £m	2015 £m
Leases expiring:		
Within one year	**0.1**	1.3
In two to five years	**0.2**	0.7
	0.3	2.0

Finance lease obligations

The Company has finance lease contracts for various items of plant and machinery. Future minimum lease payments under finance lease contracts together with the present value of the net minimum lease payments are as follows:

	2016		2015	
	Present value of payments £m	**Minimum payments £m**	Present value of payments £m	Minimum payments £m
Within one year	**0.1**	**0.1**	0.1	0.1
Between one and five years	**0.4**	**0.5**	-	-
Total minimum lease payments	**0.5**	**0.6**	0.1	0.1
Less amounts representing finance charge	**-**	**(0.1)**	-	-
Present value of minimum lease payments	**0.5**	**0.5**	0.1	0.1

At the year end, the Company had capital commitments of £0.1m (2015: £nil).

Cross company guarantees

The Company is an obligor to the bank loans and bond debt of the AA Intermediate Co Limited group. At 31 January 2016, the principal outstanding on the AA Intermediate Co Limited group debt was £2,914.0m (2015: £3,043.0m).

19 ULTIMATE PARENT UNDERTAKING AND ULTIMATE CONTROLLING PARTY

The Company is a wholly owned subsidiary of AA Corporation Limited, a Company registered in England and Wales and a wholly owned indirect subsidiary of AA Intermediate Co Limited. AA plc is the ultimate controlling party and parent undertaking.

The parent of the smallest group to consolidate these financial statements is AA Intermediate Co Limited whose registered office is Fanum House, Basing View, Basingstoke, RG21 4EA. The ultimate parent undertaking, which is also the parent of the largest group to consolidate these financial statements, is AA plc whose registered office is at Fanum House, Basing View, Basingstoke, RG21 4EA.

Copies of the consolidated parent financial statements are available from the Company Secretary at the relevant registered office address.

20 GROUP UNDERTAKINGS

All subsidiaries are wholly owned and incorporated and registered where stated below.

Name	Country
Drakefield Holdings Limited [1]	United Kingdom
Drakefield Insurance Services Limited	United Kingdom
Drakefield Group Limited	United Kingdom
Drakefiled Services Limited	United Kingdom

[1] Directly owned by Automobile Association Insurance Services Limited, all other subsidiaries are indirectly held.

Joint ventures

Name	Country	Nature of business
AA Law Limited (49% interest held)[1]	United Kingdom	Insurance services

[1] The company exercises joint control over AA Law Limited through its equal representation on the Board.

21 EVENTS AFTER THE REPORTING PERIOD

On the 8 February 2016, the Company paid a dividend of £90m, or £4.74 per share, to its parent, AA Corporation Limited.