AA INTERMEDIATE CO LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JANUARY 2015

Company registration number: 5148845

Strategic Report

Executive Chairman's Statement

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 0.8% growth in revenue and 1.8% increase in Trading EBITDA, our main measure of profit.

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.

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

At the time of the IPO of the ultimate parent company, AA plc, we set out 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 as follows:

- 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 follows:

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.

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.

Since the year end, we have issued new bonds of approximately £735 million which, combined with existing cash resources have enabled us to prepay £209 million of the Senior Term Facility and will allow us to redeem all of the existing Class B notes, amounting to £655 million. The new capital structure will improve our flexibility in supporting the development and growth of the business.

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.

Key initiatives to deliver our strategic objectives

We are now building the following detailed plans for delivering 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 our IT systems with expected investment of £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 net 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.

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.

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 exploit 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 exploit 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 for members.

As we evolve our Insurance Service 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 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.

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 Vehicle Inspection and the creation of a new 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 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.

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; Oliver Kunc, Managing Director Roadside Operations; Michael 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 public affairs; 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.

Business performance review

Roadside Assistance

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.

Year ended 31 January	**2015**	**2014**
Revenue (£m)	728.1	712.5
Trading EBITDA (£m)	358.9	348.2
Trading EBITDA margin (%)	49.3	48.9
Personal Members (000)	3,770	3,946
Business customers (000)	9,640	8,451
Breakdowns attended (m)	3.5	3.5
Number of patrols	3,081	2,981
Average income per Personal Member (£)	135	126
Average income per Business customer (£)	19	21

- 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

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.

Insurance Services

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.

Year ended 31 January	2015	2014
Revenue (£m)	142.4	148.9
Trading EBITDA (£m)	83.9	89.4
Trading EBITDA margin (%)	58.9	60.0
Policy numbers (000)	2,163	2,290
Average income per policy (£)	66	65

- 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

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.

Driving Services

The Driving Services division provided £20.5 million of Group Trading EBITDA. 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. 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.

Year ended 31 January	2015	2014
Revenue (£m)	72.4	72.6
Trading EBITDA (£m)	20.5	15.6
Trading EBITDA margin (%)	28.3	21.5
Driving School instructors	2,670	2,837

- 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

The decrease in revenue to £72.4 million reflected lower Driving School revenue 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. This was partially offset by 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.

£3.3 million of the £4.9 million growth in Trading EBITDA to £20.5 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 Management discussion and analysis.

Ireland

AA Ireland provides £14.8 million of the Group's Trading EBITDA. This business operates in Ireland in the same segments as AA in the UK. Roadside Assistance and Insurance Services are the largest parts of our business in Ireland.

Year ended 31 January	2015	2014
Revenue (£m)	38.7	39.6
Trading EBITDA (£m)	14.8	15.0
Trading EBITDA margin (%)	38.2	37.9
Personal Members (000)	119	115
Insurance policy numbers (000)	178	172

- 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

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 by £1.5 million. This robust performance reflected the success of our strategic focus in Roadside Assistance and Insurance. 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 conditions 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 EBTIDA on a constant currency basis which rose by £0.7 million. However, on a reported basis, Trading EBITDA declined £0.2 million to £14.8 million.

Risk Management

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

- 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)

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 below. 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.

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.	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. We will enhance our marketing and increase the extent of our customer engagement to demonstrate the value of our Membership offerings.
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.	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. 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.
Aggregators and price comparison sites will further damage the insurance broker model	The further growth of price comparison sites may continue to transfer value from our insurance broking business.	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.	A new Board of Directors with a wide range of relevant business and governance experience has been appointed. We have an Executive Chairman with relevant industry experience and a significant track record of successful business transformation. An accelerated business transformation programme is underway to recruit, develop and retain the required talent and enhance existing management processes.
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.	A new and experienced management team is driving the overall programme supported by enhanced risk management processes. 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.

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

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 27.

Management discussion and analysis

A detailed review of the consolidated income statement (see page 20), segmental analysis (see note 2) and consolidated statement of cash flows (see page 24) is discussed below.

Management discussion and analysis – Consolidated income statement for the year ended 31 January 2015

Revenue: Revenue increased by £8.0 million or 0.8% from £973.6 million in the year ended 31 January 2014 to £981.6 million in the year ended 31 January 2015. The increase in revenue was primarily driven by growth in the roadside assistance segment as outlined below.

> *Roadside Assistance*: Roadside Assistance revenue increased by £15.6 million or 2.2% from £712.5 million in the year ended 31 January 2014 to £728.1 million in the year ended 31 January 2015. The increase in revenue was primarily driven by stable retention rates and increased average income per Personal Member and new contract wins for business customers.
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> *Insurance Services*: Insurance Services revenue decreased by £6.5 million or 4.4% from £148.9 million in the year ended 31 January 2014 to £142.4 million in the year ended 31 January 2015. The decrease in revenue reflected a 5.5% decline in policy numbers as well as the mix between renewals and new business.
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> *Driving Services*: Driving Services revenue decreased by £0.2 million from £72.6 million in the year ended 31 January 2014 to £72.4 million in the year ended 31 January 2015. The decrease in revenue was primarily driven by the reduction in the number of driving school instructors offset by an increase in the volumes of Police training courses delivered through AA DriveTech.
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> *Ireland*: Ireland revenue decreased by £0.9 million or 2.3% from £39.6 million in the year ended 31 January 2014 to £38.7 million in the year ended 31 January 2015. The decrease in revenue was primarily driven by a strengthening of the euro against sterling.

Cost of sales: Cost of sales increased by £1.0 million from £343.2 million in the year ended 31 January 2014 to £344.2 million in the year ended 31 January 2015. The increase in cost of sales was primarily driven by additional garaging costs when our own patrols were unable to provide assistance by the roadside in a timely fashion.

Administrative and marketing expenses: Administrative and marketing expenses increased by £39.1 million or 15.0% from £258.7 million in the year ended 31 January 2014 to £297.8 million in the year ended 31 January 2015. The increase in administrative and marketing expenses was primarily driven by higher exceptional costs relating to the IPO of the ultimate parent undertaking, AA plc as well as the credit for past service on the closure of the Ireland pension scheme in the year ended 31 January 2014 of £12.4 million. Excluding these items, administrative and marketing costs increased by £7.3 million which was primarily driven by an increase in amortisation of software development expenditure.

Other operating income: Other operating income remained at £0.1 million for both the years ended 31 January 2014 and 31 January 2015.

Share of profits of joint venture and associates: Share of profits of joint venture and associates increased by £0.5 million from £0.4 million in the year ended 31 January 2014 to £0.9 million in the year ended 31 January 2015. The increase is due to the establishment of the AA Law joint venture.

Operating profit: Operating profit decreased by £31.6 million or 8.5% from £372.2 million in the year ended 31 January 2014 to £340.6 million in the year ended 31 January 2015. The decrease in operating profit was primarily driven by the increase in exceptional items and pension costs as described above offset by the increase in business profitability described below.

Finance costs: Finance costs increased by £72.9 million or 47% from £154.9 million in the year ended 31 January 2014 to £227.8 million in the year ended 31 January 2015. The increase in finance costs was driven by the full year impact of the refinancing that occurred in July 2013.

Finance income: Finance income increased by £0.5 million or 167% from £0.3 million in the year ended 31 January 2014 to £0.8 million in the year ended 31 January 2015. The increase in finance income was driven by the increase in cash resources of the Group.

Taxation: Taxation decreased by £45.4 million from a charge of £45.2 million in the year ended 31 January 2014 to a credit of £0.2 million in the year ended 31 January 2015. The decrease in tax expense was driven by a reduction in profit before tax due to the higher finance costs and exceptional items. In addition, a credit of £22.0 million was recognised for tax losses that are now forecast to be utilised against future taxable profits following the IPO of AA plc.

Trading EBITDA

Trading EBITDA is a non-IFRS measure and is not a substitute for any International Accounting Standards measure.

Trading EBITDA increased by £7.8 million or 1.8% from £422.9 million in the year ended 31 January 2014 to £430.7 million in the year ended 31 January 2015. The increase in Trading EBITDA was primarily driven by growth in the roadside assistance segment as outlined below.

Roadside Assistance: Roadside Assistance Trading EBITDA increased by £10.7 million or 3.1% from £348.2 million in the year ended 31 January 2014 to £359.8 million in the year ended 31 January 2015. Trading EBITDA margins increased from 48.9% in the year ended 31 January 2014 to 49.3% in the year ended 31 January 2015. The increase in Trading EBITDA and Trading EBITDA margin was driven by stable retention rates and increased average income per Personal Member as well as new contract wins for Business Customers.

Insurance Services: Insurance Services Trading EBITDA decreased by £5.5 million or 6.2% from £89.4 million in the year ended 31 January 2014 to £83.9 million in the year ended 31 January 2015. Trading EBITDA margins decreased from 60.0% in the year ended 31 January 2014 to 58.9% in the year ended 31 January 2015. The decrease in Trading EBITDA and Trading EBITDA margin was driven principally by lower revenue due to the mix between renewals and lower margin new business.

Driving Services: Driving Services Trading EBITDA increased by £4.9 million or 31.4% from £15.6 million in the year ended 31 January 2014 to £20.5 million in the year ended 31 January 2015. Trading EBITDA margins increased from 21.5% in the year ended 31 January 2014 to 28.3% in the year ended 31 January 2015. The increase in the Trading EBITDA margin was driven by the renegotiation of the terms of our leases for the supply of cars for the driving schools resulting in a change in classification of these leases as finance leases. This increased Trading EBITDA by £3.3 million and depreciation by £3.0 million.

Ireland: Ireland Trading EBITDA decreased by £0.2 million or 1.3% from £15.0 million in the year ended 31 January 2014 to £14.8 million in the year ended 31 January 2015. Trading EBITDA margins increased from 37.9% in the year ended 31 January 2014 to 38.2% in the year ended 31 January 2015. The decrease in Trading EBITDA was due to the strengthening of the euro against Sterling. The increase in Trading EBITDA margin is due to a reduction in administrative expenses.

Head Office Costs: Head Office Costs increased by £2.1 million or 4.6% from £45.3 million in the year ended 31 January 2014 to £47.4 million in the year ended 31 January 2015. The increase in head office costs is primarily due to the additional cost of the new Senior Management structure put in place during the year.

Management discussion and analysis – Consolidated statement of cash flows

Net cash flow from operating activities before tax: £396.9 million in the year ended 31 January 2014 compared to £387.3 million in the year ended 31 January 2015. The decrease in cash flows from operating activities before tax was driven by an increase in cash outflows from exceptional items principally being the costs arising from the IPO of AA plc. The year ended 31 January 2014 also benefitted from some positive movements in working capital following the separation from Acromas during the year.

Tax paid: Cash outflow from tax paid was £8.2 million in the year ended 31 January 2014 compared to £2.5 million in the year ended 31 January 2015. The reduction in cash outflow from tax paid is due to the reduction in the tax charge for the year ended 31 January 2015 and the utilisation of tax losses arising from the establishment of the asset-backed funding scheme for the AA UK pension scheme.

Investing activities: Cash outflow from investing activities was £27.5 million in the year ended 31 January 2014 compared to £35.5 million in the year ended 31 January 2015 which primarily related to software development expenditure.

Financing transactions: Cash outflow from financing transactions was £2.8 million in the year ended 31 January 2014 compared to £6.3 million in the year ended 31 January 2015. The increase in cash outflows on financing transactions relates to the issue costs of borrowings entered into and refinanced during the year.

Interest paid on borrowings: Cash outflow from the interest paid on borrowings was £102.9 million in the year ended 31 January 2014 compared to £183.7 million in the year ended 31 January 2015. The increase in interest paid on borrowings is due to the full year impact of the refinancing entered into in the prior year.

Payment of finance lease capital and interest: Cash outflow from the payment of finance lease capital and interest was £21.9 million in the year ended 31 January 2014 compared to £35.3 million in the year ended 31 January 2015. The increase in cash outflows from payment of finance lease capital and interest was primarily driven by the change in classification of the driving school leases as described above.

Payments to group treasury: Cash outflow from payments to group treasury was £122.3 million in the year ended 31 January 2014 compared to £nil in the year ended 31 January 2015. The decrease in cash outflow from payments to group treasury is due to the cessation of payments to Acromas group treasury following the financing transaction in July 2013.

By order of the Board

MARTIN CLARKE Director

26 May 2015

Directors' report

The Directors present their report and audited consolidated financial statements of AA Intermediate Co Limited ("the Company") and its subsidiary undertakings for the year ended 31 January 2015.

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

Bob Mackenzie	Executive Chairman	Appointed 15 July 2014
Martin Clarke	Chief Financial Officer	Appointed 15 July 2014
Nick Hewitt	Executive Director	Appointed 15 July 2014
Rob Scott	Director	Appointed 17 September 2014
Chris Jansen	Director	Resigned 31 August 2014
Andy Boland	Director	Resigned 19 December 2014

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.

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.

Directors' report *(continued)*

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.

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 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.

Directors' report *(continued)*

Employees

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.

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.

Disclosure of information to the auditors

Each current director has made enquiries of their fellow directors and the Group'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 the 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.

Directors' report *(continued)*

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable laws 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 consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). 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 Group and the profit or loss of the Company and Group 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 IFRS has 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, or the Group, 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

It is the Group's policy to maintain indemnity insurance for Directors and officers.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance, position and risk management objectives are described in the strategic report.

The Group has long-term contracts with a number of suppliers across different industries and its activities are highly cash generative. The Group's borrowings are long-term in nature and the Group had £261.2 million of cash and cash equivalents of which £243.6 million is freely available to use within the business. The Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Directors have reviewed cash flow projections and financial covenant forecasts and have concluded that the Group has sufficient funds to continue trading for the foreseeable future, being at least one year from the date of signing of these financial statements. Therefore, the financial statements have been prepared using the going concern basis.

Directors' report *(continued)*

Post balance sheet events

Details of post balance sheet events can be found in note 36.

By order of the Board

MARTIN CLARKE Director

26 May 2015

Fanum House
Basing View
Basingstoke
Hampshire
RG21 4EA

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AA INTERMEDIATE CO LIMITED

We have audited the group financial statements of AA Intermediate Co Limited for the year ended 31 January 2015 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of financial position, the Consolidated statement of changes in equity, the Consolidated statement of cash flows and the related notes 1 to 36. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 17, the directors are responsible for the preparation of the group 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 group 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 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 group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 January 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; 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 the information given in the Strategic Report and Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; 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.

Other matter
We have reported separately on the parent company financial statements of AA Intermediate Co Limited for the year ended 31 January 2015.

Ernst & Young LLP

Kevin Senior (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP
London 29 May 2015

Consolidated income statement

	Note	for the year ended 31 January 2015 £m	2014 £m
Revenue	2	981.6	973.6
Cost of sales		(344.2)	(343.2)
Gross profit		637.4	630.4
Other operating income	3	0.1	0.1
Administrative & marketing expenses		(297.8)	(258.7)
Share of profits of joint venture and associates, net of tax		0.9	0.4
Operating profit		340.6	372.2
Trading EBITDA	2	430.7	422.9
Items not allocated to a segment	2	(6.4)	5.2
Amortisation and depreciation	11,12	(48.3)	(39.6)
Share-based payments and acquisition earn-out costs	33	(1.9)	(2.0)
Exceptional items	4	(33.5)	(14.3)
Operating profit	4	340.6	372.2
Profit on disposal of joint venture		-	0.4
Loss on disposal of subsidiary		-	(3.4)
Finance costs	5	(227.8)	(154.9)
Finance income	6	0.8	0.3
Profit before tax		113.6	214.6
Tax credit / (expense)	9	0.2	(45.2)
Profit for the year		113.8	169.4

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

Consolidated statement of comprehensive income

	Note	for the year ended 31 January 2015 £m	2014 £m
Profit for the year		**113.8**	169.4
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		**(14.2)**	(7.8)
Tax effect	9	**2.8**	1.6
Capital contribution		**-**	1.6
		(12.2)	(4.7)
Other comprehensive income on items that will not be reclassified to profit and loss in subsequent years			
Remeasurement losses on defined benefit schemes	24	**(167.3)**	(122.7)
Tax effect	9	**32.5**	24.5
		(134.8)	(98.2)
Total other comprehensive income		**(147.0)**	(102.9)
Total comprehensive income for the year		**(33.2)**	66.5

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

Consolidated statement of financial position

	Note	as at 31 January 2015 £m	2014 £m
Non-current assets			
Goodwill and other intangible assets	11	**1,256.2**	1,245.0
Property, plant and equipment	12	**99.8**	77.3
Investments in joint ventures and associates	13	**4.1**	3.5
Deferred tax assets	9	**81.4**	36.4
Other receivables	15	**21.2**	1.4
		1,462.7	1,363.6
Current assets			
Inventories	14	**5.0**	4.9
Trade and other receivables	15	**185.1**	160.1
Current tax receivable		**1.2**	-
Amounts owed by parent undertaking	17	**1,205.0**	1,204.8
Cash and cash equivalents	16	**261.2**	144.7
		1,657.5	1,514.5
Total assets		**3,120.2**	2,878.1
Current liabilities			
Trade and other payables	18	**(494.6)**	(453.1)
Amounts owed to parent undertaking	17	**(3.6)**	(1.9)
Provisions	21	**(8.0)**	(11.9)
		(506.2)	(466.9)
Non-current liabilities			
Borrowings and loans	19	**(3,068.0)**	(3,006.9)
Finance lease obligations	28	**(15.8)**	(7.9)
Defined benefit pension scheme liabilities	24	**(434.4)**	(265.5)
Provisions	21	**(12.2)**	(15.7)
Insurance technical provisions		**(0.2)**	(0.2)
		(3,530.6)	(3,296.2)
Total liabilities		**(4,036.8)**	(3,763.1)
Net liabilities		**(916.6)**	(885.0)
Equity			
Share capital	22	**20.0**	20.0
Currency translation reserve	23	**(1.9)**	(1.1)
Cashflow hedge reserve	23	**(17.6)**	(6.2)
Retained earnings	23	**(917.1)**	(897.7)
Total equity attributable to equity holders of the parent		**(916.6)**	(885.0)

Signed for and on behalf of the Board on 26 May 2015 by

Director MARTIN CLARKE

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	Currency translation reserve £m	Cashflow hedge reserve £m	Retained earnings £m	Total £m
At 1 February 2013	**20.0**	**(1.0)**	-	**256.6**	**275.6**
Profit for the year	-	-	-	169.4	169.4
Other comprehensive income	-	(0.1)	(6.2)	(96.6)	(102.9)
Total comprehensive income	-	(0.1)	(6.2)	72.8	66.5
Dividends	-	-	-	(1,227.1)	(1,227.1)
At 31 January 2014	**20.0**	**(1.1)**	**(6.2)**	**(897.7)**	**(885.0)**
Profit for the year	-	-	-	113.8	113.8
Other comprehensive income	-	(0.8)	(11.4)	(134.8)	(147.0)
Total comprehensive income	-	(0.8)	(11.4)	(21.0)	(33.2)
Share-based payments	-	-	-	1.6	1.6
At 31 January 2015	**20.0**	**(1.9)**	**(17.6)**	**(917.1)**	**(916.6)**

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

Consolidated statement of cash flows

	Note	for the year ended 31 January 2015 £m	2014 £m
Net cash flows from operating activities before tax	10	**387.3**	396.9
Tax paid	10	**(8.8)**	(8.2)
Net cash flows from operating activities	10	**378.5**	388.7
Investing activities			
Software development expenditure	11	**(31.4)**	(19.9)
Purchase of property, plant and equipment (excluding vehicles)		**(5.0)**	(9.7)
Proceeds from disposal of joint venture		**-**	0.4
Sale of subsidiary, net of cash		**-**	(1.6)
Proceeds from fixed term investments – restricted		**-**	2.6
Interest received		**0.9**	0.7
Net cash flows used in investing activities		**(35.5)**	(27.5)
Financing activities			
Proceeds from borrowings		**913.0**	3,916.4
Issue costs on borrowings		**(6.3)**	(94.8)
Repayment of borrowings		**(913.0)**	(862.0)
Repayment of amounts owed to parent undertakings		**-**	(2,962.4)
Refinancing transactions		**(6.3)**	(2.8)
Interest paid on borrowings		**(183.7)**	(102.9)
Payment of finance lease capital		**(31.2)**	(19.1)
Payment of finance lease interest		**(4.1)**	(2.8)
Payments to group treasury		**-**	(122.3)
Net cash flows from financing activities		**(225.3)**	(249.9)
Net increase in cash and cash equivalents		**117.7**	111.3
Net foreign exchange differences		**(1.2)**	(0.6)
Cash and cash equivalents at 1 February	16	**144.7**	34.0
Cash and cash equivalents at 31 January	16	**261.2**	144.7

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 Intermediate Co Limited ('the Company') and its subsidiaries (together referred to as 'the Group'). AA Intermediate Co Limited is a 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.

Notes to the consolidated financial statements (continued)

1.2 Accounting policies *(continued)*

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.

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.

1.2 Accounting policies *(continued)*

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.

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.

1.2 Accounting policies *(continued)*

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. Any incentives to enter into an operating lease are recognised evenly over the lease term.

1.2 Accounting policies *(continued)*

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.

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) is 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.

1.2 Accounting policies *(continued)*

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.

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.

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.

1.2 Accounting policies *(continued)*

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.

2 Segmental information

	2015 £m	2014 £m
Revenue		
Roadside Assistance	**728.1**	712.5
Insurance Services	**142.4**	148.9
Driving Services	**72.4**	72.6
Ireland	**38.7**	39.6
Total revenue	**981.6**	973.6
Trading EBITDA		
Roadside Assistance	**358.9**	348.2
Insurance Services	**83.9**	89.4
Driving Services	**20.5**	15.6
Ireland	**14.8**	15.0
Head Office costs	**(47.4)**	(45.3)
Total Trading EBITDA	**430.7**	422.9
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)**	(2.0)
Exceptional items	**(33.5)**	(14.3)
Operating profit	**340.6**	372.2
Profit on disposal of joint venture	**-**	0.4
Loss on disposal of subsidiary	**-**	(3.4)
Net finance costs	**(227.0)**	(154.6)
Profit before tax	**113.6**	214.6

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.

2 Segmental information *(continued)*

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

- *Roadside Assistance:* This segment is the largest part of the AA business. The AA provides a nationwide service, sending patrols out to members stranded at the side of the road, repairing their vehicles where possible and getting them back on their way quickly and safely.
- *Insurance Services:* This segment includes the insurance brokerage activities of the AA, primarily in arranging motor and home insurance for customers, its home emergency activities and its intermediary financial services business.
- *Driving Services:* This segment contains the AA Driving School and the British School of Motoring, which are the two largest driving schools in the UK, as well as AA Drivetech, which provides driver training and educative programmes.
- *Ireland:* This segment competes in the same segment types as the AA UK business, with the largest part of its business being Insurance Services and Roadside Assistance.
- *Insurance Underwriting:* This segment consists of a reinsurance company, which historically reinsured certain private motor insurance business which originates from the Group's Insurance Services segment.
- *Head Office costs:* This segment includes IT, finance, property and other back office support functions.

Segment performance is primarily evaluated using the Group's key performance measure of Trading EBITDA. Trading EBITDA is profit after tax as reported adjusted for depreciation, amortisation, net finance costs, 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	**0.1**	0.1
	0.1	0.1

See note 16 for 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	**33.5**	14.3

Exceptional items includes £19.5m relating to the IPO of the ultimate parent undertaking, AA plc (2014: £nil), £0.5m relating to financing transactions (2014: £13.6m) and £0.3m (2014: £nil) relating to joint ventures. The remaining exceptional items of £13.2m (2014: £0.7m) relate mainly to cost restructuring activities and onerous property lease costs.

5 Finance costs

	2015 £m	2014 £m
Interest on external borrowings	**(179.4)**	(115.9)
Finance charges payable under finance leases	**(4.1)**	(2.8)
Total cash finance costs	**(183.5)**	(118.7)
Amortisation of debt issue fees	**(26.3)**	(29.1)
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	**(44.3)**	(36.2)
Total finance costs	**(227.8)**	(154.9)

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).

Amortisation of debt issue fees includes £18.6m (2014: £20.3m) that was immediately written off following the repayment of the Senior Term Facility (see note 20).

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.

6 Finance income

	2015 £m	2014 £m
Interest receivable	**0.8**	0.3
Total finance income	**0.8**	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 Directors' remuneration

	2015 £m	2014 £m
Directors' remuneration	**2.8**	4.6
Company contributions to money purchase pension plans	**0.2**	-
Long-term incentive plans	**0.9**	-
Aggregate remuneration in respect of qualifying services	**3.9**	4.6
Compensation for loss of office	**0.9**	-
Members of defined pension schemes	**2**	2
The amounts paid in respect of the highest paid director were as follows:		
Remuneration	**1.6**	2.3

The accrued pension of the highest paid director was £nil at 31 January 2015 (2014: £31,000). The highest paid director had contributions to a money purchase pension plan of £52,000 (2014: £nil).

9 Tax

The major components of the income tax expense are:

	2015 £m	2014 £m
Consolidated income statement		
Current income tax		
Current income tax charge	**9.5**	7.1
Adjustments in respect of previous years	**-**	0.4
	9.5	7.5
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	**(0.2)**	45.2

	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)

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

	2015 £m	2014 £m
Profit before tax	**113.6**	214.6
Tax at rate of 21.3% (2014: 23.2%)	**24.2**	49.7
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:		
- Other non-deductible expenses / non-taxed income	**-**	1.4
Income tax (credit) / expense reported in the consolidated income statement	**(0.2)**	45.2

9 Tax *(continued)*

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 income / (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.

Following the asset-backed funding arrangements on the AA UK pension scheme detailed in note 24, 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.

10 Cash flow from operating activities

	2015 £m	2014 £m
Profit before tax	**113.6**	214.6
Amortisation and depreciation	**48.3**	39.6
Finance costs	**227.8**	154.9
Finance income	**(0.8)**	(0.3)
Other operating income	**(0.1)**	(0.1)
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)
Loss on disposal of subsidiary	**-**	3.4
Working capital adjustments:		
(Increase)/decrease in inventories	**(0.1)**	0.4
(Increase)/decrease in trade and other receivables	**(24.3)**	36.5
Increase/(decrease) in trade and other payables	**24.1**	(10.1)
Decrease in provisions	**(7.6)**	(22.2)
(Decrease)/increase in insurance technical provisions	**-**	0.6
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	**387.3**	396.9
Tax paid	**(8.8)**	(8.2)
Net cash flows from operating activities	**378.5**	388.7

The cash flows from operating activities are stated net of cash outflows relating to exceptional items of £43.4m (2014: £37.3m). This relates to the cost of the IPO of the ultimate parent undertaking, AA plc, of £18.3m (2014: £nil), re-financing of the Group's borrowings £0.5m (2014: £10.7m), 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).

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	-	19.9	19.9
Disposals	-	(0.1)	(0.1)
At 31 January 2014	**1,197.8**	**100.1**	**1,297.9**
Additions	-	31.4	31.4
Disposals	-	(1.9)	(1.9)
At 31 January 2015	**1,197.8**	**129.6**	**1,327.4**
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	**1,197.8**	**58.4**	**1,256.2**
At 31 January 2014	1,197.8	47.2	1,245.0

Within software, £9.9m (2014: £12.0m) relates to assets under construction which are not amortised.

12 Property, plant and equipment

	Freehold Land & Buildings £m	Long Leasehold Land & Buildings £m	Vehicles £m	Plant & 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).

13 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 detailed 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**	**Nature 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

14 Inventories

	2015 £m	2014 £m
Work in progress	**0.2**	0.1
Finished goods	**4.8**	4.8
	5.0	4.9

15 Trade and other receivables

	2015 £m	2014 £m
Current		
Trade receivables	**154.6**	133.1
Prepayments and accrued income	**25.4**	21.8
Trade receivables from fellow subsidiary undertakings	**-**	0.6
Other receivables	**5.1**	4.6
	185.1	160.1
Non-current		
Interest rate swap derivatives (see note 26)	**21.2**	1.4
	21.2	1.4

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.

16 Cash and cash equivalents

	2015 £m	2014 £m
Cash at bank and in hand – available	**243.6**	127.6
Cash at bank and in hand – restricted	**17.6**	17.1
	261.2	144.7

Cash at bank and in hand, short term deposits include £17.6m (2014: £17.1m) 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.

17 Amounts owed by/to parent undertaking

Amounts owed by/to parent undertaking are unsecured, have no repayment terms and bear no interest.

18 Trade and other payables

	2015 £m	2014 £m
Trade payables	**114.6**	102.1
Trade payables owed to group undertakings	**-**	12.7
Other taxes and social security costs	**25.5**	21.1
Accruals and deferred income	**302.3**	272.8
Interest creditor	**0.3**	-
Other payables	**17.3**	32.3
Obligations under finance lease agreements (note 28)	**34.6**	12.1
	494.6	453.1

Trade payables owed to group undertakings as at 31 January 2014 were 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)	**3,017.8**	2,997.7
Interest rate swap used for hedging (see note 26)	**50.2**	9.2
	3,068.0	3,006.9

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
			3,043.0	**(33.3)**	**8.1**	**3,017.8**	2,997.7

20 Borrowings *(continued)*

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	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)**
29 November 2013	(500.0)	-	-	-	500.0	-	-	-
2 May 2014	(913.0)	663.0	-	-		250.0	-	-
Total	-	**663.0**	**475.0**	**500.0**	**500.0**	**250.0**	**655.0**	**3,043.0**

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.

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.

Any early repayment of the Class A or Class B notes would incur a make-whole payment.

Following the refinancing of the Initial Senior Term Facility, amortisation of the associated issue fees has been accelerated and an additional £18.6m (2014: £20.3m) has been written off in the period.

Further refinancing has taken place since the year end, see note 36.

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.

22 Share capital

	2015 £m	2014 £m
Allotted, called up and fully paid		
20,000,002 ordinary shares of £1 each	**20.0**	20.0
	20.0	20.0

The voting rights of the holders of all ordinary shares are the same and all ordinary shares rank pari passu on a winding up.

23 Reserves

	Currency translation reserve £m	Cashflow hedge reserve £m	Retained earnings £m	Total £m
At 1 February 2013	(1.0)	-	256.6	255.6
Retained profit for the year	-	-	169.4	169.4
Other comprehensive income:				
Exchange differences on translation of foreign operations	(0.1)	-	-	(0.1)
Remeasurement losses on defined benefit schemes (note 24)	-	-	(122.7)	(122.7)
Tax effect of remeasurement losses on defined benefit schemes (note 9)	-	-	24.5	24.5
Dividends paid	-	-	(1,227.1)	(1,227.1)
Capital contribution	-	-	1.6	1.6
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	**(1.1)**	**(6.2)**	**(897.7)**	**(905.0)**
Retained profit for the year	-	-	113.8	113.8
Other comprehensive income:				
Exchange differences on translation of foreign operations	(0.8)	-	-	(0.8)
Remeasurement losses on defined benefit schemes (note 24)	-	-	(167.3)	(167.3)
Tax effect of remeasurement losses on defined benefit schemes (note 9)	-	-	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
Share-based payments	-	-	1.6	1.6
At 31 January 2015	**(1.9)**	**(17.6)**	**(917.1)**	**(936.6)**

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.

Cashflow 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 £61 per qualifying ordinary share were paid.

24 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.

24 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.

24 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)**	**-**	**-**

24 Pensions (continued)

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	

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 member retiring in normal health, currently aged 60 will live on average for a further 28 years if male or 30 years if female.

24 Pensions (continued)

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.

25 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	**57.8**	57.8
Ireland	**25.6**	25.6
	1,197.8	1,197.8

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.

26 Financial assets and financial liabilities

The carrying amount of all financial assets and financial liabilities by class are 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	**261.2**	144.7
Trade receivables	**154.6**	133.1
Trade receivables from fellow subsidiary undertakings	**-**	0.6
Other receivables and accrued income	**17.6**	17.8
Amounts owed by parent undertaking	**1,205.0**	1,204.8
Total financial assets	**1,659.6**	1,502.4

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	**114.6**	102.1
Trade payables owed to group undertakings	**-**	12.7
Other payables	**60.5**	59.8
Obligations under finance lease agreements	**50.4**	20.0
Borrowings	**3,017.8**	2,997.7
Amounts owed to parent undertaking	**3.6**	1.9
Total financial liabilities	**3,297.1**	3,203.4

26 Financial assets and financial liabilities *(continued)*

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:

At 31 January 2015:

		Fair value measurement using		
	Carrying value £m	Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
Financial assets measured at fair value				
Interest rate swaps (note 15)	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)	2,357.3	2,679.9	-	-

26 Financial assets and financial liabilities *(continued)*

At 31 January 2014:

		Fair value measurement using		
	Carrying value £m	Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
Financial assets measured at fair value				
Interest rate swaps (note 15)	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)	2,104.7	2,289.2	-	-

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.

27 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.

27 Financial risk management objectives and policies *(continued)*

The interest rate profile of the Group's interest-bearing financial instruments is as follows:

	2015 £m	2014 £m
Fixed rate instruments		
Financial liabilities	**(2,407.7)**	(2,124.7)
	(2,407.7)	(2,124.7)
Effect of interest rate swaps	**(663.0)**	(913.0)
Net exposure to fixed rate instruments	**(3,070.7)**	(3,037.7)
Variable rate instruments		
Financial liabilities	**(660.5)**	(893.0)
	(660.5)	(893.0)
Effect of interest rate swaps	**663.0**	913.0
Net exposure to variable rate instruments	**2.5**	20.0

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.

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.

27 Financial risk management objectives and policies *(continued)*

The ageing analysis of trade receivables is as follows:

			Past due but not impaired		
	Total £m	Neither past due nor impaired £m	< 30 days £m	30 - 60 days £m	60+ days £m
2015	**154.6**	**143.0**	**5.2**	**1.7**	**4.7**
2014	133.1	127.2	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

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	2-5 years £m	over 5 years £m	Total £m
Loans and borrowings	-	165.6	168.0	2,468.6	1,183.0	**3,985.2**
Obligation under finance leases	-	36.6	10.1	5.7	1.8	**54.2**
Amounts owed to parent undertaking	3.6	-	-	-	-	**3.6**
Other payables and accruals	-	60.5	-	-	-	**60.5**
Trade payables	-	114.6	-	-	-	**114.6**
	3.6	377.3	178.1	2,474.3	1,184.8	**4,218.1**
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**
	3.6	384.3	181.6	2,473.7	1,184.8	**4,228.0**

27 Financial risk management objectives and policies *(continued)*

At 31 January 2014:

	On demand £m	Less than 1 year £m	1 to 2 years £m	2-5 years £m	over 5 years £m	Total £m
Loans and borrowings	-	171.5	185.2	1,940.1	1,921.7	**4,218.5**
Obligation under finance leases	-	13.5	5.5	3.0	-	**22.0**
Amounts owed to parent undertaking	1.9	-	-	-	-	**1.9**
Other payables and accruals	-	59.8	-	-	-	**59.8**
Trade payables	-	114.8	-	-	-	**114.8**
	1.9	359.6	190.7	1,943.1	1,921.7	**4,417.0**
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**
	1.9	371.5	195.2	1,927.3	1,921.7	**4,417.6**

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; and
- to provide an adequate return to shareholders.

27 Financial risk management objectives and policies *(continued)*

The Group monitors capital using net debt to Trading EBITDA ratios. The key ratios are Senior Secured Debt 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: 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	**2,832.2**	2,918.3
Net debt ratio[2]	**6.6x**	6.9x
Senior leverage ratio[3]	**4.9x**	5.3x

1 Principal amounts of the Senior Term Facility and Class A notes less cash and cash equivalents
2 Ratio of Total Net Debt to Trading EBITDA for the last 12 months
3 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 16). There are no other externally imposed capital requirements.

28 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.

28 Commitments and contingencies *(continued)*

Finance lease commitments

The Group 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:

	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).

29 Principal subsidiary undertakings

The principal operating subsidiary undertakings of the Company, 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 are indirectly held by the Company, with the exception of AA Acquisition Co Limited and AA Bond Co 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 Acquisition Co Limited	England	Holding company
AA Senior Co Limited	England	Holding company and group borrowings
AA Bond Co Limited	Jersey	Group borrowings

30 Auditor's remuneration

	2015 £m	2014 £m
Audit of these financial statements	**0.1**	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.

31 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 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	**-**	-
Reinsurance claims payments	**-**	0.4
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

31 Related party transactions *(continued)*

Cross-company guarantees

The Company has guaranteed the liabilities of its wholly-owned subsidiary undertakings AA Ireland Limited, Tourist Accommodation Management Services Limited and Breakdown Assistance Services Limited in the Republic of Ireland for the financial year ended 31 January 2015.

The Company has an interest in a partnership, AA Pension Funding LP, which is fully consolidated in the Group financial statements. The Group has taken advantage of the exemption conferred by Regulation 7 of the Partnership (Accounts) Regulations 2008 and has, therefore, not appended the accounts of this qualifying partnership to the Group financial statements. Separate accounts for the partnership are not required to be, and have not been, filed at Companies House.

32 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	**5.8**	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, Executive Director and the heads of major business units and administrative functions.

33 Share-based payments and acquisition earn-out costs

	2015 **£m**	2014 £m
Acquisition earn-out costs	**0.3**	2.0
Share-based payments - MVPS	**0.9**	-
Share-based payments - staff share incentive plan	**0.7**	-
	1.9	2.0

Management value participation shares (MVPS)

On 23 June 2014, the ultimate parent company, AA plc, 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 AA plc's 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:

33 Share-based payments *(continued)*

		2015	
	Vesting date	No. of shares	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.

The MVPS were valued using a Binomial model and 25% volatility assumption to calculate the fair value using the following risk-free interest rates:

	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.

34 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.

35 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 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

36 Events after the reporting period

The Group has raised £735m of new Class B2 loan notes with an interest rate of 5.5% and an expected maturity of 31 July 2022, using the proceeds combined with existing cash resources to pay off all £655m of the existing Class B notes and £209m of the Senior Term Facility. The £209m repayment of the Senior Term Facility has been hedged with a matching interest rate swap. The repayment of the existing Class B notes is not expected to take place until 31 July 2015.

As announced in the March 2015 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AA INTERMEDIATE CO LIMITED

We have audited the parent company financial statements of AA Intermediate Co Limited for the year ended 31 January 2015 which comprise the company balance sheet and the related notes 1 to 6. 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).

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 auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 16, the directors are responsible for the preparation of the parent company 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 parent company 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 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 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 parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 January 2015;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion 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 parent company financial statements.

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 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 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.

Other matter

We have reported separately on the group financial statements of AA Intermediate Co Limited for the year ended 31 January 2015.

Ernst & Young LLP
Kevin Senior (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP
London 27 May 2015

Company balance sheet as at 31 January

	Notes	2015 £m	2014 £m
Fixed assets			
Investment in subsidiaries	**2**	1,661.1	1,661.1
Current assets			
Debtors	**3**	128.6	128.6
Creditors falling due within one year	**4**	(1,769.6)	(1,769.6)
Net current liabilities		(1,641.0)	(1,641.0)
Net assets		20.1	20.1
Capital and reserves			
Called up share capital	**5**	20.0	20.0
Profit and loss account		0.1	0.1
Total capital employed	**6**	20.1	20.1

Signed for and on behalf of the Board on 26 May 2015 by

Director MARTIN CLARKE

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 s.464 and have been applied consistently across all periods.

Under section s408 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 it arises 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.

Notes to the Company financial statements *(continued)*

2 Investments

	2015 **£m**	2014 £m
Investment in subsidiary at cost		
At 1 February and 31 January	**1,661.1**	1,661.1

3 Debtors

	2015 **£m**	2014 £m
Amounts owed by subsidiary undertakings	**128.6**	128.6

The amounts owed by subsidiary undertakings are unsecured, have no repayment terms and bear no interest.

4 Creditors falling due within one year

	2015 **£m**	2014 £m
Amounts owed to parent undertakings	**1,756.2**	1,756.2
Amounts owed to subsidiary undertakings	**13.4**	13.4
	1,769.6	1,769.6

The amounts owed to parent and subsidiary undertakings are unsecured, have no repayment terms and bear no interest.

5 Share capital

	2015 **£m**	2014 £m
Allotted, called up and fully paid		
20,000,002 ordinary shares of £1 each	**20.0**	20.0
	20.0	20.0

The voting rights of the holders of all ordinary shares are the same and all ordinary shares rank pari passu on a winding up.

Notes to the Company financial statements *(continued)*

6 Reconciliation of movements in shareholders' funds

	2015 £m	2014 £m
Profit for the financial year	-	1,227.1
Capital contribution	-	1.7
Dividends paid	-	(1,227.1)
Net change in shareholders' funds	-	1.7
Shareholders' funds at 1 February	**20.1**	18.4
Shareholders' funds at 31 January	**20.1**	20.1

Profit for the financial year comprises dividends received of £nil (2014: £1,227.1m).

The capital contribution relates to a realised gain following the forgiveness of amounts due to a parent undertaking.