

Foundations for growth

AA plc Annual Report
and Accounts 2016

AA

IMAGE REMOVED



THE AA's TRUSTED BRAND

The AA has a long tradition of service, expertise and innovation which is at the core of all we do and means after more than 110 years, we are still one of the UK's most trusted brands

We ensure our services are delivered with our long-standing values of courtesy, care and expertise. And, as we take the AA to the next stage of its development in the dynamic markets in which we operate, we will work collaboratively with our partners to realise the opportunities

IMAGES REMOVED

1906 1911 1945 1967 2016

THE AA INVESTMENT CASE

The AA has strong fundamentals and a sustainable business model

A highly trusted commercial brand The AA has one of the most widely recognised and trusted brands in the UK

Market leadership We are by far the largest Roadside Assistance provider with more than 40% share of the UK market. We also have strong market positions across our product range

Opportunity for digital transformation We are at the forefront of digital development with the potential to transform the services we deliver and the experience our Members and customers receive

High barriers to entry Our vehicle deployment system, people and scale combined with the high start-up costs required to operate an efficient national roadside service pose significant barriers to entry

High recurring revenue Our personal Members are loyal with stable retention rates and average tenure of 12 years

High cash generation The majority of our customers pay for our services in advance so that virtually all of our accounting profits convert to cash during the year

Experienced and skilled workforce Our selection process and continual training for our excellent workforce lead to long service and high repair rates in Roadside Assistance

THE STRATEGIC PRIORITIES

Strengthen the AA's foundations

to become the pre-eminent Membership services organisation in the UK

Revolutionise customer experience

through investing in and embracing new technologies

Reduce Group borrowings

and the associated interest costs

The strategic journey

Year 1 (the 2016 financial year)
Strengthening of the AA's foundations

Year 2 Building momentum for change

Year 3 Realising the transformation

Year 4 Delivering growth

Our ambition for the AA is to transform it into the UK's pre-eminent Membership services organisation

FINANCIAL HIGHLIGHTS

Revenue (excluding business disposed of)

£963m

2015 £967m

Trading EBITDA (excluding business disposed of)

£415m

2015 £429m

Operating profit

£305m

2015 £326m

Cash conversion

101%

2015 97%

Net debt

£2.8bn

2015 £3.0bn

Adjusted basic EPS

23.2p

2015 23.3p

Basic EPS

1.0p

2015 13.3p

Interest cover

2.2x

2015 2.0x

Financial Review **p20** »

STRATEGIC HIGHLIGHTS

The transformation of the AA is well underway. We are building the **UK's leading Membership services organisation** by strengthening the AA's foundations to provide a platform for growth.

Good progress in the first phase of the transformation of the AA, including investing in IT and the brand.

Early signs of the turn-around of Roadside Assistance with a slowing of the decline in personal Membership.

Improving the Membership proposition with better products, rewards and marketing.

Engaging in digital change with growth in usage of our breakdown app, the launch of Intelematics Europe, our connected car JV, and of Trakm8 telematics.

Delivered cost savings in the first of a three-year programme culminating in savings of at least £40m per year from the 2019 financial year.

Won the Lex Autoleasing contract bringing our overall share of business customers to approximately 60%.

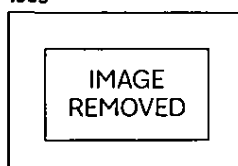
Launched our in-house Insurance Underwriter and Financial Services in partnership with the Bank of Ireland.

Reduced the cost of borrowings, producing annualised savings of £45m net finance costs, through the refinancing.

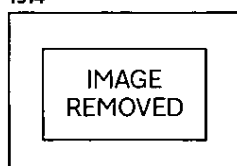
Recommended our first dividend of 9p in total with respect to the 2016 financial year and paid the interim dividend of 3.5p.

Our marketplace **p4** »

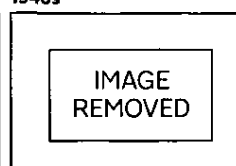
1905



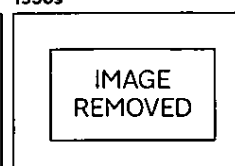
1914



1940s

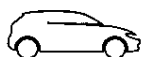


1950s



The AA has a long tradition of **service and innovation** which is at the core of all we do and means that more than 110 years on, we remain **the UK's leading motoring organisation**.

THE AA'S AREAS OF BUSINESS



Roadside Assistance¹

IMAGE
REMOVED

Revenue

£724m

IMAGE
REMOVED

Trading EBITDA

£361m



Insurance Services

IMAGE
REMOVED

Revenue

£131m

IMAGE
REMOVED

Trading EBITDA

£78m

¹ Excluding the glass business disposed of



Driving Services

IMAGE
REMOVED

Revenue

£68m

IMAGE
REMOVED

Trading EBITDA

£19m



Ireland

IMAGE
REMOVED

Revenue

£38m

IMAGE
REMOVED

Trading EBITDA

£13m

Our performance p26 >

IMAGE
REMOVED

1960s

IMAGE
REMOVED

1980s

IMAGE
REMOVED

1990s

IMAGE
REMOVED

2016

IMAGE
REMOVED

The following definitions apply throughout the report

2016 financial year is the year to 31 January 2016

Trading EBITDA (earnings before interest, tax, depreciation and amortisation) excludes exceptional items and items not allocated to a segment. In the current period items not allocated to a segment principally relate to the difference between the cash contributions to the pension schemes for on-going service and the calculated annual service cost and share-based payments (see note 32).

Adjusted basic EPS (earnings per share) adjusts for a number of one-offs of which the largest are exceptional items and the

amortisation of debt issue fees, items not allocated to a segment, the amortisation of debt issue fees, penalties on early repayment of debt and double running interest costs on Class B/B2 notes. This is covered more fully in note 8 to the accounts.

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

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

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

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

We offer UK motorists roadside assistance both through personal Membership and business partnerships.

Insurance Services includes motor and home insurance and Home Services.

We offer many other services, which enrich Membership, including driving lessons and training within the Driving Services division and such services as AA Tyres, Automyze and AA Cars which are part of Roadside Assistance.

The AA in Ireland offers insurance and roadside assistance.

IMAGE REMOVED

The AA at a glance

We operate three divisions: Roadside Assistance, Insurance Services and Driving Services. We also operate in Ireland providing Roadside Assistance and Insurance Services

Revenue split by division¹

IMAGE
REMOVED

Trading EBITDA split by division^{1,2}

IMAGE
REMOVED

¹ Revenue and Trading EBITDA excluding the Glass business disposed of

² Excluding head office costs

Our performance **p26**

ROADSIDE ASSISTANCE

IMAGE
REMOVED

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



Revenue¹

£724m

Trading EBITDA¹

£361m

Personal Members

3.7m

Business customers

10.2m

Highlights of the year

IMAGE
REMOVED

IMAGE
REMOVED

March
Indexation – inclusion in the FTSE 250

April
Raised £199m equity and £735m new bonds to redeem PIK notes and Class B notes reducing cost of debt from 5.9% to 5.0%

April
Launched AA Tyres

June
Launched our award-winning advertising campaign

July
Announced Joint Venture with TVS in India focusing on roadside assistance for the business market

July
Launched Financial Services partnership with Bank of Ireland

August
Launched The AA Garage Guide

August
Which? survey recommended provider of breakdown cover for 10th successive year

IMAGE
REMOVED

IMAGE
REMOVED

IMAGE
REMOVED

IMAGE
REMOVED

INSURANCE SERVICES

IMAGE
REMOVED

The AA offers motor, home, home emergency services, travel and other specialist insurance policies. We act as broker for insurers, operating a diverse panel of third party underwriters. In 2015, we relaunched our Financial Services business in partnership with the Bank of Ireland, and, in January 2016 we launched our own in house Insurance Underwriter



Revenue

£131m

Trading EBITDA

£78m

Insurance policies

2.1m

Average income per policy

£63

DRIVING SERVICES

IMAGE
REMOVED

We are the UK's leading provider of driving lessons through AA Driving School and the British School of Motoring. We are also one of the two market leaders in providing driver education including Driver Awareness courses which are offered by Police forces



Revenue

£68m

Trading EBITDA

£19m

Driving instructors

2,574

DriveTech Police contracts

11

IRELAND

IMAGE
REMOVED

Roadside Membership, which provides 24 hour roadside assistance for vehicles, is the largest source of income in Ireland. We also offer motor insurance policies underwritten by a panel of underwriters and home insurance underwritten by a third party insurer



Revenue

£38m

Trading EBITDA

£13m

Personal Members

128,000

Insurance policies

185,000IMAGE
REMOVED

September
Launched Membership benefits including discount with Harvester

October
Payment of first interim dividend
October
Launch of Automyze

November
First AA loans launched through Bank of Ireland partnership

December
Lex Autolease contract won

December B2B Fleet business telematics launched through Trakm8

January Roll out of iPhones and Bosch diagnostics technology to patrols

January
Insurance Underwriter launched

IMAGE
REMOVEDIMAGE
REMOVEDIMAGE
REMOVED

Our marketplace

IMAGE REMOVED

ROADSIDE ASSISTANCE MARKET

Roadside assistance services in the UK, including the AA, are provided through business-to-consumer (personal Members) and business-to-business channels (business customers)

In personal Membership, fees are paid principally for breakdown cover but additional revenue is available from selling other services (cross-selling) or higher-value products and services (up-selling). For business customers fees are set either per breakdown or per vehicle and average income per customer is lower than in personal Membership

Market Share

The roadside assistance market is worth approximately £1.8bn and we are the clear market leader with over 40% of the consumer segment. With respect to our business customers, the AA has more than 65% of the car manufacturers segment, around 60% of the fleet and leasing segment and around half of the banking and added value account segment

Competition

In the UK there are a small number of large players with significant market share. Competition is based on quality of service and price.

Barriers to entry are significant and include the investment required to build a trusted, highly recognised brand, the creation of a nationwide, branded fleet of qualified patrols with competitive technical ability, and the sophisticated deployment process to operate effectively. No new entrant has achieved a significant scale since the 1970s.

Customers

Personal Membership covers vehicles or individuals. Vehicle policies cover either single or multiple vehicles, personal policies cover one or more individuals including families, regardless of the vehicle they are travelling in. Entry-level products offer cover for repair or towing broken-down vehicles to a local garage if repair is not possible. This can be complemented by additional services such as

Relay transport for broken-down vehicles to a destination of the Member's choice

Homestart: repair services while vehicles are either parked at or within a prescribed distance of their home

Stay Mobile: Replacement vehicle, transfer or accommodation services to help Members who would otherwise be stranded

Business customers' cover is provided by the respective partners but with services provided by the AA. These include pay-for-use and insurance based services

Market drivers

Economic environment

Whilst our business proved remarkably stable over the economic cycle, spend on roadside assistance is discretionary. Positive momentum in the UK economy provides a solid backdrop to expand our Membership base

Size of the car fleet

UK volumes are driven primarily by the number of privately-owned vehicles which grew at approximately 1% per annum between 2007 and 2014. Despite suffering significantly during the financial crisis, new car registrations in the UK have grown strongly in recent years with 6.3% growth in 2015.

New business customers

Winning new partners and renewals of existing contracts is a key driver of our business-to-business operations

Licensed private cars in the UK, 1950-2014 (million)

UK consumer market share, 2015 (%)

Business customer market share, 2015 (%)

IMAGE REMOVED

IMAGE REMOVED

IMAGE REMOVED



IMAGE REMOVED

INSURANCE SERVICES MARKET

The AA and other insurance brokers act as an intermediary between those seeking insurance cover and insurance underwriters and earn a commission at the point of sale. Insurance brokers assume no underwriting risk, but work with one or more underwriters who compete for the risk. There is a trend for brokers to develop in-house underwriting capabilities and in January 2016 the AA launched its own motor underwriting business to complement existing broker operations from the start of the new financial year.

Market Share

In 2015 the industry wrote around £11bn of motor insurance premiums and £7bn of home insurance premiums, with the AA accounting, by volume, for approximately 4% and 3% of these markets respectively.

Competition

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

Along with brand, pricing is a key consideration for customers, particularly for motor insurance. After three successive years of motor premium rate reductions, 2015 saw an increase in rates and a subsequent rise in customer churn levels. Home insurance also remains competitive but premiums have continued to fall during the year as weather has been benign.

Customers

Our insurance business serves both roadside Members and non-Members. At the end of 2015, approximately 9% of our roadside Membership base had motor insurance with us and 6% had home insurance.

Insurance brokers compete with each other and direct insurers through a range of channels. Price comparison websites (PCWs) amount to up to 70% of the market in motor insurance. In home insurance they are less dominant largely because home insurance policies are less homogenous and also less expensive than their motor counterparts.

Market drivers

In the UK, motor insurance is a legal requirement and market volumes are strongly influenced by the number of vehicles and licensed drivers. The number of cars, motorists and overall cost of motoring are key volume drivers.

The residential property market drives the home insurance market as insurance is typically taken when purchasing a property. Mortgage lending, house price momentum and new build volumes are all factors to consider.

Home insurance providers offer a range of related products, including home emergency, maintenance and repair cover for boilers, blocked pipes and roof damage.

Brand consideration for switching motor insurance, Jan 2012-Jan 2016 (%)



IMAGE REMOVED

AA British Insurance Premium Index – motor insurance, 2011-15 (£ per policy)



IMAGE REMOVED

AA British Insurance Premium Index – home contents & buildings insurance, 2011-15 (£ per policy)



IMAGE REMOVED

Our marketplace continued

IMAGE REMOVED

DRIVING SERVICES MARKET

The UK driving services market comprises driving schools and training for occupational drivers or those who have committed driving offences. Branded driving school organisations tend to operate a franchise model whereby franchisees receive a car and support from the brand in return for a regular fee. Training for occupational drivers and individuals who have committed driving offences are delivered under long-term service contracts.

Market Share

The AA has approximately 12% of the very fragmented market for pupils through its two franchises, AA Driving School and British School of Motoring.

In DriveTech the AA has strong positions in both fleet and Police markets. In the Police market the AA has contracts with 11 of the 45 Police forces in the UK. In the fleet market the AA is market leader with a range of smaller competitors.

Competition

The UK driving services market has high levels of competition ranging from national and regional networks to independent operators. Markets remain competitive with cost and professional qualities top of the buying criteria.

Customers

In driving schools, pupil segments and their needs are complex, varying by age, region and buying criteria. Key customers for occupational-driver training are companies with significant logistics operations in the UK and Europe, as well as Police forces throughout the UK.

Market drivers

The driving school market is driven by levels of economic confidence. Since 2014 demand has been strong due to better economic conditions and a catch-up of people who deferred learning to drive during the financial crisis. Occupational-driver training is also affected by economic confidence as companies' fleets grow or contract.

IMAGE REMOVED

IRELAND MARKET

The four main products the AA offers in Ireland broadly mirror our product offerings in the UK and are roadside assistance, motor insurance, home insurance and home emergency services. In Ireland breakdown cover is usually an additional benefit provided with motor insurance.

Market Share

The motor and home insurance markets in Ireland are less fragmented than the UK and do not include aggregators and claim handling companies. In motor and home insurance, we are the largest insurance broker by premium whilst in roadside assistance we are the market leader with 68% market share.

Competition

Breakdown cover is an additional benefit provided with motor insurance in Ireland and our competitors are major insurance underwriters. Motor insurance premiums grew by 30% in the 2015 calendar year resulting in increased competition in both new business and retaining existing customers.

Customers

Acquisition channels for insurance customers include the internet, telesales and direct mail. Cross sales provide a significant source of new business in our roadside assistance product.

Breakdown cover is also offered through business-to-business relationships with car manufacturers and leasing companies. In addition, we have a specific contract with a leading Irish bank to provide marketing material on breakdown cover to holders of a premium card product.

Market drivers

Underlying economic performance and pricing dynamics in insurance are the main market drivers of the Irish business.

Driving schools, pupils market share, 2015 (%)

IMAGE REMOVED

Provisional driving licence applications, 2006-15 ('000s)

IMAGE REMOVED

Ireland, roadside assistance new vehicle market share, 2015 (%)

IMAGE REMOVED

Our business model

The AA's highly trusted brand has been at the heart of all we do for more than 110 years

It is supported by the values of courtesy, care, expertise, dynamism and collaboration by which we operate throughout our business. These values are powerful when applied to the strengths of the AA which are our high quality people, innovative approach to what we do, reliability in delivering our services, intellectual property, the technology we bring to bear and our financial resources.

The combination of our strengths, brand and values is what has enabled us to continue to deliver the high standards of service to our Members, customers and business partners.

As we deliver our strategy, we will strengthen the AA's foundations to become the UK's pre-eminent Membership services organisation and revolutionise customer experience. In addition we will reduce borrowings and the associated cost of interest.

We are confident that the AA's strengths, our values and the management's strategic priorities will continue to reward the trust and enhance the expertise at the heart of our brand and services. Thereby we expect to increase value for shareholders.

OUR STRATEGIC PRIORITIES

Strengthen the AA foundations

to become the pre-eminent Membership services organisation in the UK

Revolutionise customer experience

through investing in and embracing new technologies

Reduce Group borrowings

and the associated interest costs

IMAGE REMOVED

Continued trust

We have been rescuing millions of motorists a year for more than 110 years. Trust is further enhanced by the contribution we make through the extensive work of the AA Charitable Trust.

Increased shareholder value

We aim to generate shareholder returns through both increased share value and dividends. Our business is highly cash generative, facilitating financial deleveraging and return of cash to shareholders.

Enhanced expertise

We ensure our employees, our technology and our work with regulators transforms us into the pre-eminent Membership services organisation in the UK.

Transform the AA into the UK's pre-eminent Membership services organisation

Executive Chairman's statement

IMAGE REMOVED

IMAGE REMOVED

"In this past year, the first year of our transformation, we have strengthened the foundations of the AA and put in place the platform which is allowing us to revolutionise customer experience. We have also substantially reduced the cost of borrowings. At the same time, we have delivered results in line with expectations and strong operational cash flow.

"With stronger foundations and the significant potential we see across the business, we are confident that our continued investment during the 2017 financial year will build momentum. We expect to begin to realise the benefits of this transformation in the 2018 financial year.

"The Board's confidence in the business, combined with the substantial reduction in the annual cash interest costs achieved by the refinancing, has led to the recommendation of a total dividend of 9p in respect of the 2016 financial year."

Bob Mackenzie
Executive Chairman

OUR STRONG FUNDAMENTALS

In transforming the AA, we are building on the strong fundamentals of the business

High recurring revenues and significant cash generation

A highly regarded and trusted commercial brand

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

FINANCIAL HIGHLIGHTS

Revenue (excluding business disposed of)	Trading EBITDA (excluding business disposed of)	Basic EPS	Adjusted basic EPS	Cash conversion	Dividend per share
-0.4%	-3.3%	1.0p	23.2p	101%	9p
Personal Members	Personal Members excluding free memberships	Business customers	Insurance policies	Driving instructors	
3.7m	3.3m	10.2m	2.1m	2,574	

This has been another remarkable year for the AA in which we set out our strategy to transform the business and have since made excellent progress against this strategy

- › We have reported results in line with expectations with strong operational cash flow
- › The transformation is firmly on track and early benefits are showing in Roadside Assistance
- › We have made significant strategic progress in launching our in house Insurance Underwriter, Financial Services partnership, our connected car positioning, and a JV in India
- › We refinanced our most expensive debt, lowering the cost of borrowings
- › We paid our first interim dividend and are now recommending the final dividend in respect of the 2016 financial year

Results in line with expectations and reflecting a robust performance in Roadside Assistance

The robust performance of Roadside Assistance, which represents 76% of Group trading EBITDA, against a background of major transformation reinforces our conviction in the potential of this business. It grew revenue 1.8% and trading EBITDA 0.8%, reflecting not just its resilient business model but our successful execution of several strategic initiatives in the first year of the transformation

Overall revenue, excluding the Glass business which we sold in September 2015, reduced 0.4% to £963m. This was the result of the continued pressures in both the Insurance Services and Driving Services markets and the impact of the weaker Euro affecting conversion of the results of the Ireland business. This decline, as well as new IT operating costs and a full year of PLC costs, together with the investment in marketing and diagnostic technology offset both the positive performance of Roadside Assistance and cost reductions. As a result, Group Trading EBITDA, excluding the Glass business, reduced 3.3% to £415m, in line with expectations, and the EBITDA margin was consequently slightly lower than last year at 43.1% (2015: 44.4%)

Operational cash flow was strong and cash conversion before tax and exceptional items was 101%. Net cash flow was £90m before dividends the one-off costs of the refinancing and the purchase of our own shares for an employee incentive programme. This was achieved despite the abnormally high level of capital expenditure relating to the transformation

Strategic achievements

We set out three strategic priorities at the time of our IPO in June 2014 and in March 2015 we laid out the objectives and investment needed to deliver them. The progression of this programme is set out on pages 12 and 13 of this report

We have made good progress in our first full year since the IPO and are now well on our way to turning the AA into the UK's pre-eminent Membership services organisation, taking full advantage of digital opportunities

Our strategic initiatives are covered on pages 14 to 19 of this report. The summary which follows gives a sense of the reach of our ambition and the robustness of the business in responding to these initiatives

1. Our first strategic priority is to strengthen the AA's foundations to become the pre-eminent Membership services organisation in the UK. We have made a very good start in reversing the effect of years of under-investment

› We are turning around the core Roadside Assistance business and increasing personal Memberships. We increased the retention rate to 81% (from 79% last year) and the rate of decline in Roadside Assistance personal Members has significantly slowed to -2.6% year on year, which compares with -4.5% last year. Average income per Member rose 4.4% to £141

› We are encouraged by the progress and future potential of the recently launched in house Insurance Underwriter and Financial Services partnership with Bank of Ireland

› A testament to the excellence of our services was winning the Lex Autoleasing contract this year which helped drive a 6% increase in our business customers

2. Our second strategic priority is to revolutionise customer experience through investing in the business and embracing new technologies We are making Membership more valuable, modernising our operations and becoming more efficient

› The transformation of IT systems is critical to strengthening the foundations of the AA. The marketing package of the new Customer Relationship Management system (CRM), was launched in March, ahead of plan. The uploading of data will follow

› The digital revolution at the AA is well underway. The app is now used in 11% of personal Members' breakdowns, improving customer experience and our efficiency. The imminent relaunch of the website and launch of My AA, the online portal for Members, are essential in modernising the business internally and from the perspective of the customer

› We have invested in main media marketing with approximately £10m directed to brand advertising. This reinforced our marketing developments, including new product architecture and rewards, which are creating a stronger Membership proposition

› We have built on our long history of innovation in creating our Intellematics Europe JV and launching Trakm8 telematics for Fleet and Leasing customers, giving us a strong position for connected car developments

› We are making productivity improvements throughout the operations and specifically in the patrol force. These are not only delivering higher service levels but will also lead to greater operational efficiencies

› Operational and back office efficiencies have contributed to our cost savings of £8m in the 2016 financial year. This is part of at least £40m net annualised savings, off the 2015 cost base, expected from the 2019 financial year

PROGRESSION OF THE TRANSFORMATION OF THE AA

	›	›	›	›
	Year 1	Year 2	Year 3	Year 4
Having established the transformation strategy at the time of the IPO last year we set out the details of this strategy and now are reporting on the first phase of this transformation	Strengthening of the AA's foundations	Building momentum for change	Realising the transformation	Delivering growth

Executive Chairman's statement continued

3 The third strategic priority is to reduce Group borrowings and the associated interest costs Through the refinancing completed in July, we reduced the annual cash cost of servicing our debt by more than £45m. Net debt was £2,809m at 31 January 2016, compared with £2,967m at 31 January 2015. The refinancing also facilitated the future payment of dividends which are discussed below.

Organisational changes

We have made organisational changes to help direct focus on the customer and simplify management structures. The main appointments are as follows:

- › Janet Connor, Restructuring & Insurance Director, is accountable for the Broking operation as the CEO of AAISL and the AA's programme of restructuring and transformation.
- › Olly Kunc, Operations Director, is responsible for the operations of the AA including patrols, deployment, call centres and technical development.
- › Mike Lloyd, Commercial Director, is responsible for the Roadside Assistance and Financial Services businesses as well as the marketing, digital and public affairs functions for the AA.
- › Kirsty Lloyd-Jukes, Membership Services Director, is responsible for the Motoring Services, Media and Driving School businesses as well as leading the connected car strategy and Group strategy.

Since the IPO, we have created a senior management team with the appropriate skills to lead the cultural change which is enabling the transformation of the AA.

The Board

There have been several changes to the Board during the year. Margaret Young resigned as Non-Executive Director and Nick Hewitt as Executive Director, both for personal reasons.

In October 2015, we appointed Suzi Williams as Non-Executive Director and a member of the risk, remuneration and nomination committees. Brand development is one of the key strategic objectives of the transformation and Suzi's extensive experience with consumer-facing companies and brands make her a major asset to the Board.

I thank John Leach, our Senior Independent Director, and the Board for its commitment to and energetic support of the AA over the year.

Corporate responsibility

Our values are courtesy, care, expertise, collaboration and dynamism. The most long-standing of these, courtesy, care and expertise, are the values by which we serve our Members and our customers and can be summed up by the word responsibility. We are an organisation which has held responsibility at the core of everything we have done for more than 110 years.

The Board is proud of the way in which our commitment to Corporate Responsibility has developed and become more formalised. While there is still some way to go in integrating it into all levels of the business, it forms a natural part of what we do every day.

In our Corporate Responsibility report (pages 36 to 42) you will find details of how we operate as a responsible organisation. Our employment practices ensure that our people deliver the service in the time-honoured way which we are so famous for and so proud of. In our role at the roadside, we consider it our responsibility to keep our own teams, our Members and customers safe. Of course Health & Safety goes beyond the roadside and we maintain high standards throughout our operations. We are committed to environmental responsibility and encourage it across our properties and in all our activities. In addition, our charitable work reinforces our values and our role as the UK's pre-eminent motoring organisation. And it is the AA Charitable Trust for Road Safety and the Environment that sets us apart.

Through the Trust, we have campaigned for the interests of motorists as their responsible 'champion', and created practical training programmes for vulnerable drivers and other road users.

This lies behind one of the AA's proudest honours of the year: the appointment of Edmund King, who as AA President leads our public positioning, as an Officer of the Order of the British Empire in the 2016 New Year's Honours List for his services to road safety. His letter introducing our Corporate Responsibility report can be found on page 36.

Dividend

In view of the AA's business model, which is characterised by strong cash generation, our confidence in the transformation plans and the interest cost savings facilitated by the refinancing, the Board is recommending the payment of a total dividend of 9 pence per share, in respect of the 2016 financial year. This includes the interim dividend of 3.5 pence per share which was paid on 23 October 2015.

The final dividend of 5.5 pence per share, subject to approval at the AGM on 9 June, will be paid on 13 June to shareholders registered on 13 May (with the ex-dividend date set for 12 May).

It remains our intention to pursue a progressive dividend policy.

A YEAR OF ACHIEVEMENTS

During the 2016 financial year we strengthened the AA's foundations to provide a platform for future growth

We have made **good progress in the first phase of the transformation** of the AA, including the upgrade of our technology and investment in marketing and brand advertising.

There are **early signs of the turn-around of Roadside Assistance** with a slow down in the decline of personal Members.

We improved the **Membership proposition** with better products and rewards and a more sophisticated approach to marketing.

Our **digital app** is now used in 11% of personal Members' breakdowns and we are building our position in connected car technology.

Outlook

We have made a positive start to the 2017 financial year which is the second year of the transformation programme. While we are building momentum from the actions taken last year to strengthen the foundations and revolutionise the business, the 2017 financial year will, as anticipated, be another year of investment.

Based on the success of last year's advertising campaign and other marketing actions, we will continue to invest in brand marketing in the 2017 financial year. We will continue to invest in our products and connected car developments as previously outlined.

A shift in the phasing of the transformation capital expenditure results in the investment of approximately £65m in the 2017 financial year following lower than expected investment of £54m in 2016. The total will remain unchanged at £128m over three years.

We continue to target cost savings off the 2015 cost base of at least £40m per annum from the 2019 financial year. In the 2017 financial year we expect to increase savings compared with the 2016 financial year.

We expect reduction in net debt in the 2017 financial year to be relatively modest. Thereafter, as we revert to more normalised levels of capital expenditure, we expect to accelerate deleveraging.

Thank you to the AA team

It has been an exacting year and the team at the AA has performed well against a backdrop of huge change. Our strategy to transform the AA would not succeed were it not for the positive attitude and sheer hard work of our people in adapting to the cultural shift needed. Modernising is neither easy nor comfortable and I am proud of the way in which our teams have responded to what has been asked of them.

The AA has a clear direction of where we are going and how to get there and we also have good leadership in our management team. Some real successes achieved already give us cause for greater confidence. However, there is much still to do, but I am confident that we are now facing up to the challenges ahead and transforming this remarkable company into something more relevant, stronger and more sustainable.

IMAGE REMOVED

Bob Mackenzie
Executive Chairman

GOVERNANCE OVERVIEW

IMAGE REMOVED

John Leach
Senior Independent Director (SID)

In this my second year as SID at the AA, I am pleased to provide testimony to our progress on corporate governance and reporting, in line with the standards required for a Premium Listed public company.

Given the combined position of Chief Executive and Chairman, my role as SID has added significance and responsibilities to provide oversight of our governance activities. As part of this, I ensure that the correct checks and balances are in place to safeguard our decision-making processes. We have a clear division of the Board's responsibilities as recommended by the FRC's UK Corporate Governance Code, and further detail of this is found on pages 50 to 53.

During the year, I led our first board performance evaluation, marking another key milestone in our evolving governance arrangements. This included a formal opportunity to appraise the performance of the Executive Chairman, a key requirement of the Code in measuring board effectiveness. The results of the evaluation are discussed in detail on page 60.

As SID, I actively seek to develop the relationship between our Board and shareholders. I was delighted to invite our top 10 shareholders' governance officers to meet Andrew Miller, Chairman of Audit Committee, Mark Millar, Company Secretary and me to discuss our governance in more depth.

I am willing to meet shareholders should they contact me through the Company Secretary.

I am privileged to support the work of Bob Mackenzie, the Executive Chairman, and the Board and to protect the interests of the AA's shareholders and other stakeholders by ensuring that our governance is strong and effective.

IMAGE REMOVED

We delivered **cost savings** in the first of a three-year programme, culminating in annualised savings of at least £40m from the 2019 financial year.

The AA won the **Lex Autoleasing contract** for roadside assistance bringing our overall share of business customers to around 60%.

In January 2016 we launched an **Insurance Underwriter** to create a more sustainable insurance business model and take advantage of our strong brand and understanding of our Members' needs.

We launched a **Financial Services partnership** with Bank of Ireland, building on past success in this market.

We refinanced **reducing annualised net finance costs** by £45m.

The AA's **first dividend was paid** the interim dividend for the 2016 financial year. The final dividend is recommended.

The strategic journey

We have made **good progress in the first year of our programme to transform the AA into the UK's pre-eminent Membership services organisation, taking advantage of the benefits of digital development**

We set out three strategic priorities at the time of our IPO in June 2014 and, in March last year, detailed the investment that would be needed. These are still the strategic priorities which will deliver the transformation and the investment requirements remain as previously set out

Our strategic priorities:



There is much still to do, but we are confident that we have put the foundations in place to realise our ambitions for the AA

IMAGE REMOVED

The progression of the transformation is as follows:

Year 1 Strengthening the foundations

In the 2016 financial year we strengthened the AA's foundations by focusing on and investing in the fundamentals.

We began to modernise our IT systems, recharge our brand, reinforce the excellence of our service delivery and improve the Membership proposition. In addition, we have begun to build our digital position both for the benefit of personal Members and to develop connected car telematics

We relaunched our Financial Services business and established our Insurance Underwriter.

We also significantly reduced the cost of the annual interest on borrowings and paid our first dividend.

IMAGE REMOVED

IMAGE REMOVED

IMAGE REMOVED

» Year 2 (2017 financial year)
**building the momentum
for change**

» Year 3 (2018 financial year)
**beginning to realise
the transformation**

» Year 4 (2019 financial year)
delivering growth

As expected this is another year of investment with further significant capital expenditure related to the transformation. All of this will create momentum for the following year when the benefits will begin to be realised. In addition, the focus on productivity and efficiency throughout the business will continue to generate savings.

We expect positive trends in revenue growth and cost savings to be clear. This will be the final year of our transformation and associated capital expenditure investments are expected to be much lower than in the previous two years. We will start to apply our significant cash generation to a programme of deleveraging.

After three years of investment in the transformation, we believe that the AA will be strengthened and revolutionised, resulting in revenue growth, cost savings, enhanced profitability and lower net debt. The transformation will increase the value we deliver to our Members, customers and shareholders.

On the following pages we explain the objectives which will deliver the strategic priorities and the progress achieved in year one.

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Year 1 **Strengthening the foundations**

Strengthen the AA's foundations to become the pre-eminent Membership services organisation in the UK

Our strategy is to reverse the effect of years of under-investment. Delivery of the following four objectives is transforming the AA and the progress we have made in the 2016 financial year is set out here

IMAGE REMOVED

1.

Grow the core Roadside Assistance business by reversing the decline in Membership and increasing income per Member

We will achieve this by improving the value and attractiveness of our services, clarifying the benefits of Membership and, once the new IT systems are in, cross-selling other products within our portfolio to Members

Retention up and the decline in Personal Members slowed

We are encouraged by the improvement we have already achieved in the first year of the transformation, ahead of the new IT implementation

Retention, at 81%, is up two percentage points on last year and the rate of decline in personal Members has slowed to 2.6% compared with 4.5% last year

We expect to arrest and reverse the decline in personal Membership in the medium term by increasing retention of existing Members and attracting new Members

The investment in the brand, highlighting the superiority of our products and services, improved marketing and better retention tools are all having the positive effect we planned

2.

Evolve the Insurance and Financial Services business models based on the strength of our brand and the value we offer our customers

Launched our Insurance Underwriter

The Insurance Underwriter was launched on 30 January 2016. Our first policies have been written based on our unique data sources enabling more effective pricing of risk

The business benefits from our powerful brand, new IT systems and an experienced management team. The Underwriter will initially focus on AA Members and build the business over the next few years supported by a significant level of reinsurance to mitigate risk. This will add an important capability to the AA's portfolio of services for Members

Relaunched AA Financial Services

We relaunched AA-branded Financial Services through our 10-year exclusive arrangement with Bank of Ireland (BOI UK). We intend to rebuild our position in a market which was previously highly successful for the AA

By combining the marketing strength of the AA with the financial services expertise of BOI UK, the business will offer financial services and products, including credit cards, loans, cash savings (including ISAs) and mortgages, to AA Members as well as to the wider public

3.

Improve our business customer positioning through partnerships, underpinned by high service levels.

Our leading positions in business-to-business Roadside Assistance for the Manufacturing, Fleet and Leasing and Added Value Accounts markets, lend scale to our operations. The strength of our relationships with our manufacturer partners and our share of more than 65% of that market provides us with a platform for innovation across the industry.

Record satisfaction levels from VWG

The scale and expertise of our patrol force and the high standards of service we deliver have resulted in an exceptional record of service with VWG achieving a customer satisfaction rate of 95%.

New contract with Lex Autoleasing

We won the contract to provide roadside assistance for Lex Autoleasing, the UK's biggest leasing company, adding approximately 280,000 vehicles and 50 patrols to our own fleet. This helps the entire business as scale is critical to maintaining high service standards while optimising costs. This brings our overall share of UK business customers to approximately 60%.

IMAGE REMOVED

4.

Capture opportunities in adjacent sectors based on the strength and potential of the brand

This will become more important in the future and we ensure that all we do supports that potential.

Initial step into the potentially very large Indian market

Our expertise, track record in innovation and strong business partnerships lies behind the creation of a joint venture in India with TVS Automobile Solutions. We expect to remain focused on providing breakdown services for the rapidly-growing business segment of the market in which our relationships with multi-national manufacturers are mutually beneficial.

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Year 1 **Strengthening the foundations**

Revolutionise customer experience through investing in and embracing new technologies

In becoming the UK's pre-eminent Membership services organisation, we are revolutionising AA customer experience. This requires investment in our patrols, brand, IT systems and digital capabilities. We expect to make Membership more attractive and valuable and to generate savings.

The three objectives which will deliver this strategic priority and our progress in the 2016 financial year are set out here.

IMAGE REMOVED

1.

Invest in systems, people and processes to improve our customers' and Members' experience and our operational efficiency

The IT transformation, which is critical to our strategy, is on time and budget.

IT infrastructure to support our back-office and call centre systems is being transformed

This establishes a sound base on which to build new operating systems. It will achieve greater efficiency and smoother working processes, resulting in lower operating costs.

The marketing package of the new Customer Relationship Management system (CRM) went live in March, ahead of plan

This enables more targeted, personalised and relevant marketing on a more finely-segmented basis, reducing the quantity while increasing the speed and effectiveness of communication.

The remainder of the CRM will follow, providing an integrated platform for Members' records and, once all the data is loaded, enabling easier sales processes. This will reduce time and costs for sales and in our call centres. It will also result in a smoother customer experience and facilitate sales across our product range.

New technology is improving the effectiveness of our patrols

They now have Bosch diagnostic technology, smartphones and tablets which improve despatch efficiencies, give them critical information ahead of and during a job and save time spent on administration. This is improving repair rates, response times and number of jobs done while offering customers a better service. Plans for the 2017 financial year include new battery testing equipment to improve the output and timing of battery testing.

The launch of the universal spare wheel will also significantly improve productivity and benefit customers.

2.

Deliver a step-change in our digital capability.

Our digital investment is improving the attractiveness and efficiency of our operations, products and processes making them more immediate, intuitive and relevant

The app is improving personal Members' experiences in reporting breakdowns and keeping track of patrols' arrival time. This lowers the number of calls handled by our call centre and, as a result, reduces costs. The app is now used in 11% of personal Members' breakdowns and we are aiming to grow this

The first release of 'My AA', the new customers' online portal, enables customers to view and manage their AA products in a single profile. This is the first building block of customer self-service which will modernise our interaction with Members. We expect My AA to deliver savings and increase online sales

The new website will be launched in May, enhancing our online commercial processes including speeding up our ability to update information and prices

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

Intelematics Europe This joint venture, an alliance of market-leading roadside assistance clubs, has access to existing solutions which are tried, tested and widely adopted in Australia and the USA. We will have reach and economies of scale across multi-national manufacturers at an international level. This will give us the ability to leverage shared IP to deliver sophisticated solutions

Trakm8 telematics for our Fleet and Leasing customers, provided by Trakm8, our long-standing partner for our own patrol fleet, enables driving style, fuel usage and location to be monitored electronically. In addition, we can combine telematics with roadside assistance and other AA products

Our Business

Our Performance

3.

Transform Membership, the brand and our commercial model to retain existing Members, attract new Members and sell products across all our businesses

We have done a great deal in the first year of the transformation to invigorate the value of AA Membership

Our first brand advertising TV campaign in eight years reinforced our marketing approach and highlighted the AA's expertise and product range

As the benefits of Membership become clearer, the decline in personal Membership of the AA should reverse and the sale of additional products should increase

Improvements to the Membership proposition include

- › An improved pricing model ensuring our products are more rationally tiered
- › Added benefits for Members include discounts at a range of Mitchells & Butler outlets (Harvester, Browns and Nicholson's) and MOTO service station discounts at Costa, WH Smith, Burger King and M&S
- › New services such as AA Tyres and Automyze will reduce some of the administrative burden for motorists

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Insurer Hosted Pricing will enable more frequent insurance price changes which our Underwriter will tailor using enhanced data. We will offer Insurer Hosted Pricing to our panel in time. This is expected to improve the competitiveness of both our Insurer and broking businesses

Year 1 **Strengthening the foundations**

Reduce Group borrowings and the associated interest costs

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

Reduced the cost of borrowing

We made significant progress in reducing the cost of borrowing in the 2016 financial year. Our refinancing, announced in March and completed in July, realised the following:

Reduced leverage taking Net Debt EBITDA from 6.9x to 6.8x. We raised £199m of equity and issued new bonds of £735m allowing the repayment of the most expensive elements of the debt, put in place by previous owners, and £209m of the senior term facility.

Reduced the annualised cost of cash interest by £45 m by repaying the 9.5% PIK notes, redeeming the Group's high yield 9.5% Class B notes and issuing new Class B2 notes at 5.5%.

Facilitated our first dividends with respect to the 2016 financial year as the refinancing eased the criteria governing dividend payments. This allowed us to commence our progressive dividend policy a year earlier than originally planned. The Board recommended dividends in respect of the 2016 financial year of 9p per share including the interim dividend of 3.5p per share paid in October 2015.

Focus remains on paying down debt

It remains a key strategic priority to reduce group borrowings and the associated cost of servicing that debt.

We expect relatively modest reduction in net debt in the 2017 financial year. Thereafter, as we revert to more normalised levels of capital expenditure, we expect to accelerate deleveraging.

IMAGE REMOVED

The financial implications of the transformation

Capital expenditure

When we set out the plan for the transformation, we announced that the capital investment required for the IT element of the transformation was £128m over three years and this is unchanged. However, the phasing of that investment has altered and we invested £54m capital expenditure in the 2016 financial year, below the level expected due to timing of payments around the year end. We expect to invest approximately £65m during the 2017 financial year and £9m in the 2018 financial year.

Once the transformation is complete, we expect to continue to invest approximately £40m per year on maintenance capital expenditure split between vehicles (approximately £20m net of proceeds), IT systems (approximately £10m) and property and equipment (approximately £10m).

Brand advertising investment

Based on the success of the brand advertising during the past year, we continue to expect to invest approximately £10m per year in brand marketing. As previously stated, we also expect to make additional investment into product development such as connected car and Automyze services, which will significantly enhance the Membership proposition.

Operating costs

We expect incremental IT operational maintenance costs, mainly comprising fees and licences, to amount to £8m per year.

We remain confident in our ability to reduce costs and continue to expect savings to our 2015 cost base of at least £40m per year from the 2019 financial year. We made savings in the 2016 financial year of £8m which are largely related to higher productivity throughout the organisation, efficiencies in our call centres and back office and in rationalising property. The cost to achieve these total savings is expected to be £45m over three years.

Financial review

IMAGE REMOVED

“The year ending 31 January 2016 was the first full year of the transformation of the AA and our results reflect the significant investment we are making in the business, the early signs of progress and the refinancing exercise undertaken during the year.”

Martin Clarke
Chief Financial Officer

REVENUE		
	2016 £m	2015 £m
Roadside Assistance	724	711
Insurance Services	131	142
Driving Services	68	74
Ireland	38	39
Insurance Underwriting	2	1
Trading revenue	963	967
Revenue from business disposed of	10	17
Group revenue	973	984

Revenue was 0.4% lower at £963m compared with £967m last year. This excludes £10m (2015: £17m) of revenue relating to the windscreen replacement business, sold in September 2015. The decline masks a robust performance by Roadside Assistance, which grew revenue by £13m or 1.8% through both improved retention and increased average income per personal Member.

This robust performance by Roadside Assistance was offset by the £11m decline in Insurance Services revenue reflecting increased churn in motor insurance and the impact of resetting Financial Services business through the joint venture with Bank of Ireland. Driving Services' revenue declined as the number of franchise instructors continued to fall and the loss of certain DriveTech police contracts in the year ended 31 January 2015 flowed through to reduce course numbers in the 2016 financial year. Ireland reported revenue declined as a result of adverse foreign exchange movements, underlying revenue rose £3m on a constant currency basis.

TRADING EBITDA		
	2016 £m	2015 £m
Roadside Assistance	361	358
Insurance Services	78	84
Driving Services	19	20
Ireland	13	15
Head Office costs	(56)	(48)
Trading EBITDA	415	429
EBITDA from business disposed of	-	1
Group Trading EBITDA	415	430
Trading EBITDA margin (%)	43.1	44.4

Trading EBITDA was £415m, £14m lower than the 2015 financial year. The decline reflects the cost of our first brand advertising campaign for eight years (£10m), the costs related to the full year effect of being a public company (an incremental £4m), the new IT fees and licences (£4m for the six month period), and the credit card run off which benefitted the prior period (£5m). We achieved cost savings of £8m and in addition, reduced fees payable to motor insurance price comparison websites. The Trading EBITDA margin reduced from 44.4% to 43.1%.

The increase in Head Office costs reflects the full year impact of public company costs and the increase in IT costs mentioned above and also the costs of opening the London office.

OPERATING PROFIT		
	2016 £m	2015 £m
Group Trading EBITDA	415	430
Items not allocated to a segment	(18)	(8)
Amortisation and depreciation	(54)	(48)
Exceptional items	(38)	(48)
Operating profit	305	326

The fall of £21m in operating profit is largely driven by the trading performance of the business described above.

The £10m increase in items not allocated to a segment is made up of a £6m increase in the difference between the cash contributions to the pension scheme (that were set as part of the 2013 triennial valuation) and the calculated (as per IAS 19) annual service cost, and a £3m increase in the share based payments charge as more grants under the long term incentive schemes for staff and management were made.

Amortisation and depreciation increased by £6m to £54m reflecting the full year effect of the reclassification of Driving School cars under finance leases.

Exceptional items fell from £48m to £38m as the prior year included very substantial costs related to the IPO. This was partially offset by £22m of costs associated with the business restructuring, a £5m loss on disposal of the windscreen replacement business, and, £4m associated with the debt refinancing.

FINANCE COSTS		
	2016 £m	2015 £m
Interest on External Borrowings	159	211
Finance charges payable under finance leases	7	4
Penalties on early redemption of debt	62	3
Double running interest cost of Class B/B2 notes	19	-
Total cash finance costs	247	218
Amortisation of debt issue fees	22	30
Transfer from cash flow hedge reserve	8	7
Net finance expense on defined benefit pension schemes	12	11
Total non-cash finance costs	42	48
Total finance costs	289	266

The finance charge and associated cash flows were affected by the refinancing. This involved raising new equity and issuing new Class B2 notes to repay the remaining PIK notes, pay down £209m of bank debt and refinance the pre-existing Class B notes. The one off costs associated with the refinancing are summarised as follows.

IMPACT OF REFINANCING ON INCOME STATEMENT	
	£m
Accelerated amortisation of debt issue fees	18
Penalties on early redemption of debt	62
Double running interest cost of Class B/B2 notes (see note 4)	19
Transfer from cashflow hedge reserve for extinguishment of cashflow hedge (see note 4)	8
Increase in finance costs	107
Transaction fees included in exceptional items	4
Reduction in profit before tax	111
Tax at the effective rate of 23.5%	(26)
Reduction in profit after tax	85
Impact of refinancing cost on basic earnings per share	14.3p

IMPACT OF REFINANCING ON STATEMENT OF CASH FLOWS	
	£m
Issue of Share Capital	206
Issue costs on share issuance	(7)
Proceeds from borrowings (Class B2 notes)	735
Issue costs on borrowings	(16)
Penalties on early redemption of debt	(62)
Repayment of bank loans	(209)
Repayment of PIK notes	(175)
Repayment of Class B notes	(655)
Other costs of transaction included in exceptional items	(4)
Double running interest cost of Class B/B2 notes (see note 4)	(19)
Net cash flows from refinancing	(206)

Financial Review continued

Taxation

The tax charge for the year of £11m is made up of a current tax charge of £10m and a deferred tax charge of £1m. The current tax charge includes a £6m one-off current tax charge following a change of accounting policy in the Group's UK subsidiary undertakings. As these changes have no impact on the overall Group accounting policies, there is a £6m credit in deferred tax to offset the current tax charge.

The deferred tax charge includes £7m due to the reduction in future corporation tax rates announced by the Chancellor during the year, which reduces the value of carried forward losses. Excluding this, the Group has an effective tax rate of 23.5% (2015: 18.1%). The impact of the new anti-avoidance legislation on the carried forward losses announced at the same time as the reduction in corporate tax has also been considered and it is not believed to have any impact on the usability of these losses in future years.

Profit and Earnings per Share

Profit after tax reduced by £63m to £6m (2015: £69m)

Basic earnings per share reduced by 12.3p, from 13.3p to 1.0p. This reduction is driven by the profit reductions discussed above combined with the increase of 52m shares issued as part of the refinancing.

Adjusted basic earnings per share were 23.2p with the lower costs of the new capital structure largely offsetting the reduction in Trading EBITDA and increased depreciation and amortisation.

CASH FLOW AND LIQUIDITY

	2016 £m	2015 £m
Group Trading EBITDA	415	430
Working capital	12	(15)
Other items	(7)	1
Cash flow from operating activities before exceptional items and taxation	420	416
Exceptional items and tax paid	(39)	(59)
Cash flow from investing activities	(71)	(16)
Cash inflow from issue of share capital	199	200
Debt refinancing activities	(382)	(188)
Interest on borrowings	(178)	(218)
Cash flow from other financing activities	(85)	(35)
Net increase in cash and cash equivalents	(136)	100
Cash conversion	101%	97%

Notwithstanding the reduction in Trading EBITDA, the favourable movement in working capital of £12m, resulted in cash flow from operating activities before exceptional items and tax increasing from £416m to £420m. Having reviewed our presentation of proceeds from sale of vehicles, this has been represented as part of investing activities, reducing cash conversion to 101% (2015: 97%).

The voluntary debt repayments described above, combined with the substantial IT capital expenditure spend resulted in a net cash outflow for the year of £136m (2015: cash inflow of £100m). The AA cash balance has therefore reduced to £166m (2015: £302m), held in AAA money market funds for easy access and high liquidity. The £150m working capital facility remains undrawn other than the £10m ancillary facility used to issue letters of credit to certain corporate insurance providers. We do not currently envisage needing to draw on the working capital facility for the foreseeable future.

We are required to hold segregated funds as "restricted cash" in order to satisfy regulatory requirements governing our Insurance Underwriting business and Irish subsidiaries. These restricted cash balances have increased to £34m (2015: £24m) principally representing the capital requirements of our new insurance underwriter, which commenced trading on 30 January 2016. Overall restricted cash balances reduced from £43m to £34m as the prior year also included £19m held as PIK note pre-funded interest that was released as part of the refinancing.

Capital Management

The Group considers its capital to be a combination of net debt and equity. As at 31 January 2016, net debt was £2.8bn while the equity market capitalisation was £1.8bn.

The Directors seek to achieve an appropriate balance between the higher return that is possible with borrowings and the advantages and security of equity funding. As set out on page 18 under our strategic priorities, we aim to reduce both the amount of net debt and the cost of servicing it over time.

As a highly leveraged public company, our intention is to repay debt through trading cashflows to reduce overall gross borrowings. This is a key medium term focus for the business while maintaining our competitive advantage through investment in technology. The other strategic objectives are of equally high priority but require lower levels of cash to deliver. Given the strong cash generation of the business over many years we do not have to trade these objectives off against each other – we can achieve all these objectives over different strategic timeframes.

The capital structure at 31 January 2016 is summarised below:

CAPITAL STRUCTURE			
	Expected maturity date	Interest rate (%)	Principal £m
Senior Term Facility	31 January 2019	4.36	454
Class A1 notes	31 July 2018	4.72	475
Class A2 notes	31 July 2025	6.27	500
Class A3 notes	31 July 2020	4.25	500
Class A4 notes	31 July 2019	3.78	250
Class B2 notes	31 July 2022	5.50	735
Total borrowings		4.97	2,914
Finance lease obligations			61
Cash and cash equivalents			(166)
Total net debt			2,809
Equity (Valued at market close on 29 January 2016)			1,790
Total capital			4,599

The weighted average interest rate for all borrowings of 4.97% has been calculated using the effective interest rate and carrying values on 31 January 2016.

Given the penalties associated with making early repayments of the bonds we have issued, we do not envisage making material voluntary repayments of these at this stage. The substantial IT investment (£128m over three years) will not only modernise the business, but also substantially reduce the level of IT spend in subsequent years. Once this is complete, we expect to resume normal levels of net capital expenditure of approximately £40m per annum. This, together with very low working capital requirements will significantly improve free cash flow. We therefore expect to be able to make repayments to our senior term facility over its remaining life before refinancing any residue at maturity. The existing Class A and Class B2 notes in issue will be refinanced at or before their expected maturity dates.

Net Debt and Dividends

NET DEBT		
	2016 £m	2015 £m
Year ended 31 January		
Senior Term Facility	454	663
Class A notes	1,725	1,725
Less: AA Intermediate Co Limited group cash and cash equivalents	(94)	(262)
Net senior secured debt ¹	2,085	2,126
Class B notes	-	655
Class B2 notes	735	-
Finance lease obligations	61	51
Net debt excluding PIK notes ²	2,881	2,832
PIK notes	-	175
Less: AA plc Group cash and cash equivalents ³	(72)	(40)
Total net debt	2,809	2,967
Net debt ratio ⁴	6.8x	6.9x
Class B leverage ratio ⁵	6.9x	6.6x
Senior leverage ratio ⁶	5.0x	4.9x

Class A free cash flow debt service	3.9x	3.5x
Class B free cash flow debt service	2.4x	2.2x

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

2 Principal amounts of the Senior Term Facility, Class A notes, Class B2 notes and finance leases less AA Intermediate Co Limited group cash and cash equivalents

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

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

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

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

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

The Class A and Class B2 notes also place restrictions on the Group's ability to upstream cash from the key trading companies to pay external dividends and finance activities unconstrained by the restrictions embedded in the financing documents.

The Class A notes only permit the release of cash providing the senior leverage ratio after payment is less than 5.5x and providing there is sufficient excess cash flow to cover the payment.

The Class B2 note restrictions generally only permit the release of cash providing the fixed charge cover ratio after payment is more than 2.1 and providing that the aggregate payments do not exceed 50% of the accumulated consolidated net income.

KEY CASH RELEASE METRICS

	2016	2015
Net senior leverage (AA Intermediate Co Limited group) ¹	5.0x	5.1x
Excess cash flow ²	£204m	£225m
Fixed charge cover ratio ³	2.8x	n/a
Consolidated net income ⁴	£514m	£356m

Note that the above table relates to the financial results of the AA Intermediate Co Limited group and therefore may differ slightly to those of the AA plc Group.

1 Ratio of Net Senior Secured Debt to Trading EBITDA of AA Intermediate Co Limited group for the last 12 months. This excludes AA plc cash and cash equivalents.

2 Cumulative free cash flow since 1 February 2013 reduced by dividends and adjusted for items required by the financing documents.

3 Ratio of fixed finance charges to Trading EBITDA.

4 Cumulative profit after tax since 1 May 2013 adjusted for items required by the financing documents.

Pensions

As at 31 January 2016 the defined benefit pension scheme net liabilities were £296m, a reduction of £138m since 31 January 2015. This reduction is largely due to the increase in the corporate bond yields, which we are required to use as the discount rate for these liabilities. The most recent triennial valuation was carried out at 31 March 2013, which showed a deficit of £202m. The next triennial valuation will be carried out as at 31 March 2016. Preliminary indications suggest that the reduction in long term gilt yields since 2013 will cause this deficit to increase, however the final results will not be known for up to fifteen months after this date.

In the meantime, the asset-backed funding scheme deficit reduction contributions will continue to be paid. These contributions were £13m in the 2016 financial year and will increase annually by the rate of inflation.

IMAGE REMOVED

Martin Clarke
Chief Financial Officer

Key performance indicators

The AA has strong fundamental characteristics (listed on page 8 in the Executive Chairman's statement). These form the basis of the transformation which we will deliver through the strategic priorities explained on pages 12 to 19. The KPIs below reflect those fundamental characteristics and our progress in the first year of the transformation against the strategic priorities. The performance underlying these KPIs is explained in the Financial Review on pages 20 to 29.

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

Key strength Strategic objective	KPI	Definition	Data	Remuneration
High recurring revenue and cash flow generation arising from strong Trading EBITDA	Trading EBITDA	The key measure of segmental performance is considered to be Trading EBITDA being earnings before interest, tax, depreciation and amortisation excluding exceptional items, items not allocated to a segment, discontinued operations and businesses held for sale. In the current period items not allocated to a business segment principally relate to the difference between the cash contributions to the pension schemes for on-going service and the calculated annual service cost and share-based payments.	£415m -3.3%	Annual cash bonus 70% based on Trading EBITDA. Remaining 30% subject to Trading EBITDA underpin.

IMAGE
REMOVED

High cash flow generation	Cash conversion	Net cash inflow from operating activities before tax and exceptional items divided by Trading EBITDA	101% +4ppt	-
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IMAGE
REMOVED

Reduce borrowings	Leverage	Ratio of net debt to Trading EBITDA for the last 12 months (see page 23)	6.8x +1.4%	Individual objective for cash bonus for CFO
--------------------------	----------	--	-----------------------------	---

IMAGE
REMOVED

Reduce borrowings and associated interest costs	Interest cover	Trading EBITDA divided by cash finance costs (see note 4) excluding any early repayment fees	2.2 +10%	Individual objective for cash bonus for CFO
--	----------------	--	---------------------------	---

IMAGE
REMOVED

Create shareholder value

Shareholder value	Total Shareholder Return (%)	Total shareholder return represents the change in closing value of a share held from the IPO to 31 January 2016 plus the value of any dividends paid during that period. This has been measured using the share price on initial admission of £2.50.	19%	Long Term Incentive Plans share performance condition
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Strengthen the AA as the pre-eminent motoring services organisation in the UK and revolutionise customer experience

Key strength Strategic objective	KPI	Definition	Data	Remuneration
Market leader in roadside assistance	Personal Members (millions)	Number of personal Members at the period end	3.7m -2.6%	Individual criteria of Bonus of Executive Chairman
		Number of personal Members excluding free Memberships at the period end	3.3m -1.8%	
	Business customers (millions)	Number of business customers at the period end	10.2m +6.0%	-
	Average income	Average income per personal Member	£141 +4.4%	Individual criteria of Bonus of Executive Chairman
		Average income per personal Members excluding free Memberships	£156 +4.0%	
		Average income per business customer	£18 -5.3%	
Strong market positions in other segments	Insurance policies (millions)	Total policies sold in the last 12 months excluding business customers within Home Services	2.1m -4.1%	-
	Franchised driving instructors	Number of driving school instructors at the period end	2,574 -3.6%	-
Scale and barriers to entry	Patrols	Number of employees in the UK that attended breakdowns	2,881 -6.5%	-
	Breakdowns attended (millions)	Number of breakdowns attended	3.4m -2.9%	-

Performance

Roadside Assistance

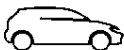


IMAGE
REMOVED

Roadside assistance responded well to the investment in the transformation, growing revenue 1.8% and Trading EBITDA 0.8%

Revenue (% of Group)

Trading EBITDA (% of Group)¹

IMAGE
REMOVED

IMAGE
REMOVED

Revenue excluding business disposed of

£724m (£711m)

Trading EBITDA excluding business disposed of

£361m (£358m)

Trading EBITDA margin

49.9% (50.4%)

Breakdowns attended

3.4m (3.5m)

Personal Members

3.7m (3.8m)

Average income per personal Member

£141 (£135)

Personal Members excluding free Memberships

3.3m (3.4m)

Average income per personal Member excluding free Memberships

£156 (£150)

Business Customers

10.2m (9.6m)

Average income per business customer

£18 (£19)

Headlines

- › Income per personal Member rose 4.4%, retention rate rose to 81% and the rate of decline in personal Membership slowed
- › Retained business contracts with Northgate and Toyota, extended contract with Vauxhall and won a new contract with Lex Autoleasing
- › Rolled out new diagnostic and communications technology to patrols resulting in significant improvements to customer service and efficiency, increasing the repair rate to 82%
- › Awarded Which? Recommended Provider status for both consumer and AA-provided manufacturer breakdown cover for the 10th year in a row

Overview

Roadside Assistance performance is driven by our highly valued personal Member base. However, business customers provide close to half the jobs for the patrol force, supporting the scale of our operations which is critical to our success.

Roadside Assistance also includes additional services such as vehicle inspections, tyre fitting and publishing. Collectively these businesses generate approximately £7m of Trading EBITDA.

In September 2015 we completed the disposal of our mobile windscreen repair business, AA Glass, and prior year figures are restated.

Financial performance

Roadside Assistance revenue grew 1.8% to £724m, driven by the increase in income per Member, improved retention rates and a full year impact from the Volkswagen Group contract, launched in June 2014. We have slowed the rate of decline of personal Members to -2.6% (to 3,673k) versus a decline of -4.5% last year. Average income per personal Member rose 4.4% compared with a rise of 7.1% in the prior year. It remains our intention to limit price increases.

We have ceased to give away free Memberships to insurance customers, and excluding these free Memberships, we have 3,331k personal Members. The rate of decline in this category is slower at -1.8% (-5.2% last year) demonstrating the greater value Membership holds for those who pay for it. The broader Membership base which includes joint and family Members was 4,712k Members, compared with 4,773k last year. This wider category represents the potential reach of cross-selling opportunities which the new CRM system will enable us to address.

During the year our retention rate reached 81% compared with 79% last year. This reflects the positive impact of enhancements to our product offering, pricing, investment in advertising and training at our call centres including particularly the Stay AA programme. We are receiving fewer incoming calls from Members requesting a review of their cover and our Stay AA team is retaining more of those who call at lower discounts, largely owing to better product communication. Revenue from new Members was broadly flat.

In the business-to-business segment we grew revenue with a 6% increase in customers driven by retention of contracts with Northgate and Toyota, the extension of our contract with Vauxhall, and winning the Lex Autoleasing contract which started in January 2016. The increase in customer numbers offset a lower average income per business customer resulting from the first full year effect of the Lloyds contract which we retained in March 2015.

Trading EBITDA increased by £3m to £361m, mostly from the improvement in revenue and cost savings generated by efficiencies in the patrol force and call centres. Trading EBITDA margin however decreased from 50.4% to 49.9% due to the investment in brand marketing of approximately £10m and new technology for the patrols as part of the transformation.

Financial review **p20**

¹ excluding Head Office costs

Performance

Insurance Services

(including Financial Services)



IMAGE
REMOVED

As expected revenue and Trading EBITDA were lower than last year reflecting the competitive market conditions

Revenue (% of Group)

IMAGE
REMOVED

Trading EBITDA (% of Group)¹

IMAGE
REMOVED

Revenue

£131m (£142m)

Trading EBITDA

£78m (£84m)

Trading EBITDA margin

59.5% (59.2%)

Policy numbers

2.1m (2.2m)

Average income per policy

£63 (£66)

Headlines

- › Policy numbers and income per policy were adversely affected by challenging market conditions and as a result revenue is lower
- › Profitability maintained due to reduced aggregator spend and cost efficiencies in call centres
- › Launched our financial services partnership with the Bank of Ireland in July
- › Launched our in house insurance underwriter in January
- › Our core products of motor and home insurance again achieved the top award, a five-star rating, from Defaqto the independent researcher of financial products

Overview

We arranged 2.1m policies last year for motor insurance, home insurance and Home Services providing emergency repairs to boilers, heating systems and other domestic installations

We launched our financial services partnership with the Bank of Ireland through which the AA offers a range of savings, loans and credit cards. By building on a long history of AA financial services, and developing products highly relevant to our Members, we will further enhance our Membership proposition.

The introduction of new operating systems and products into Home Services prepares the ground for the many opportunities we see in that market.

We also launched our Insurance Underwriter in January to participate on the AA's motor insurance panel. This will enable us to use our understanding of our Members in pricing the risk of providing insurance for them.

Financial performance

The decline in Insurance Services revenue, to £131m, reflected the 4.1% decline in policy numbers. This was due to higher motor premiums, which drove increased customer churn, as well as a decrease in motor ancillary income, and reflected our focus on profitability over volumes.

Trading EBITDA, of £78m, reflected this decline and the credit card run off from the legacy financial services business which benefitted the prior year results by £5m. However improvements in efficiency within our contact centres and lower marketing spend on aggregators helped offset these adverse effects and trading EBITDA margin was higher than last year at 59.5% (59.2%).

Financial review [p20](#)

¹ excluding Head Office costs

Performance

Driving Services



IMAGE
REMOVED

Driving Services reported a reduction in revenue and Trading EBITDA largely reflecting the lower number of driving instructor franchises and fewer Police contracts in the prior year

Revenue (% of Group)

IMAGE
REMOVED

Trading EBITDA (% of Group)¹

IMAGE
REMOVED

Revenue

£68m (£74m)

Trading EBITDA

£19m (£20m)

Trading EBITDA margin

27.9% (27.0%)

Driving instructors

2,574 (2,670)

Headlines

- › Driving school franchisee numbers and Police speed awareness courses down as a result of the prior year reduction in Police contracts
- › We protected profitability by efficiency savings
- › We are reviewing these businesses with a strategy to embed the Driving Schools more effectively into our roadside assistance and insurance services product offerings

Overview

This division comprises Driving Schools and DriveTech. Through the AA and BSM brands the AA is the largest driving school in the UK and DriveTech is the market leader in providing speed awareness courses for Police forces in the UK and fleet training services.

Since the year end, we have aligned Driving Schools more effectively with our Roadside Assistance business. This should enable us to take advantage of its strong brand and leading position to encourage relationships with potential Members at an earlier stage in their experience as motorists.

Financial performance

Driving Services revenue declined by £6m to £68m due to lower volumes in both Driving Schools and DriveTech.

Whilst the overall number of people learning to drive in the market increased, Driving School revenue declined in line with the 3.6% fall in the number of franchised instructors. The continued buoyancy of the market has led to many instructors becoming independent. We are revamping the proposition for AA driving instructors and clarifying the advantages to learner drivers of association with the AA brand.

In DriveTech, revenue was affected by a decline in speed awareness courses following the loss of two contracts in the prior year.

Driving Services trading EBITDA was lower than last year, a result of this fall in revenue, although the decline was partly offset by the full year benefit of the reclassification of the vehicle leasing contracts.

Financial review [p20](#)

¹ excluding Head Office costs

Performance

Ireland



IMAGE
REMOVED

Reported results for Ireland were adversely affected by the weakness of the Euro. On a constant currency basis revenue rose 8% and Trading EBITDA was flat

Revenue (% of Group)

Trading EBITDA (% of Group)¹

IMAGE
REMOVED

IMAGE
REMOVED

Revenue

£38m (£39m)

Personal Members

128,000
(119,000)

Trading EBITDA

£13m (£15m)

Insurance policy numbers

185,000
(178,000)

Trading EBITDA margin

34.2% (38.5%)

Headlines

- › Roadside personal Membership numbers up 8% as a result of strong retention and enhanced cross selling
- › Motor insurance retention improved despite inflationary pricing environment
- › This drove an 8% increase in revenue on an underlying constant currency basis
- › EBITDA was flat on a constant currency basis
- › The weakness of the Euro affected reported results

Overview

AA Ireland is one of Ireland's leading consumer services businesses, providing insurance and breakdown cover

Financial performance

Revenue declined by 3% to £38m compared to the prior period due to adverse foreign exchange movements. On a constant currency basis, revenue rose by £3m (8%) and all products contributed to this strong performance

Personal Members increased by 8%, reflecting a 12% growth in new business volumes and continued strong retention. The 4% increase in insurance policy numbers was driven by good performance in motor insurance with retention rates strong despite an inflationary pricing environment

Trading EBITDA on a constant currency basis was flat, with higher revenue offset by higher marketing and staff costs. However reported Trading EBITDA declined by £2m to £13m as a result of the foreign exchange movements

Financial review [p20](#) »

¹ excluding Head Office costs

Risk Management

Effective risk management is key to the delivery of the AA strategic objectives

AA Risk Management Framework

Risk Registers

Our Risk Management Framework Policy requires all areas of the business to maintain a risk register which is to be reviewed at least quarterly. Each senior member of the Management team has his/her own set of "Top Risks" which are reviewed each month. Risks from this "bottom up" risk identification exercise are linked to the principal risks identified by the PLC Board.

Incidents and Near Misses

An important part of the risk framework is the identification and reporting of incidents and near misses which help inform our assessment of risk and helps highlight areas for control improvement actions.

Key Risk Indicators

The Risk Management framework is also supported by key risk indicator management information (MI). This is used to monitor the position against our desired risk exposure and to monitor trends and changing factors enabling us to take early corrective action.

Control Verification

The operation and reporting of management "snap checks" (control effectiveness tests) and quarterly self-certification by risk register owners that the risk management framework has been operated for their area of the business helps underpin the Risk Management framework.

Principal Risks

The Directors have carried out a robust assessment of the Principal Risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. Inputs to the assessment include the strategic objectives of the AA, internal and external factors, and the risks identified by management. These principal risks have been monitored and updated by the PLC Risk Committee during the year. These risks are detailed below together with the key mitigating actions/controls, a summary of changes during the year and the primary key performance indicators (KPIs).

Risk Appetite

The risk appetite for the AA is documented and approved by the PLC Board. The AA's Risk Appetite framework policy defines the amount of risk the organisation is willing to take in achieving its strategic objectives.

The AA brand and the positive perception and promotion of the AA brand are key to the continuing success of the AA. The Group therefore seeks to mitigate or avoid risks which may have a negative impact on the brand.

Many of the AA's activities relate to successfully managing logistics – roadside repair and recovery, arranging suitable insurance and financial products. Our customers trust us to source/provide products and services which deliver desirable customer outcomes.

The AA relies on a number of business partners and believes they should be fairly treated and that the AA should ensure that these partners provide services and products of a suitable standard to both the AA and AA Members.

With our heritage as a membership organisation, we have a strong sense of customer fairness and therefore seek to avoid potential conduct risk, unethical behaviours and unfair customer outcomes.

The AA will accept a considered and balanced exposure to risks in order to acquire, grow or defend market share.

The AA has a zero appetite for systemic non-compliance with Legal and Regulatory requirements.

We are exposed to movements in the market value of assets (particularly asset values in the Pension Fund) and interest rates on a proportion of our debt. We do not take market risks for reward and use appropriate risk management techniques to reduce the effects of market risk on the Group including interest rate hedging.

The AA seeks to obtain the best available return on its cash commensurate with taking very little risk and minimising credit risk exposure to any one particular institution and by maintaining a balanced investment portfolio.

The AA seeks to ensure that sufficient liquidity is always available to meet the immediate requirements of the Group.

Revised business risk reporting has been put in place to track better the position against risk appetite.

Risk Model

The AA uses a bullseye risk model to guide the business in the identification of risks to the organisation. This considers core, transitional, strategic and horizon/emerging risks.

› **Core Risks** The risks that are a daily part of our business activities (business as usual risks). They may be constant or may be evolving over time.

› **Transitional Risks** The risks that are present as a result of initiating and making changes.

› **Strategic Risks** Any risk that may adversely impact upon the delivery of a strategic objective.

› **'Horizon' (or Emerging) Risks** New/potential threats or opportunities that we need to prepare for. (These are also considered as part of the strategy and three year planning process.)

IMAGE REMOVED

Three Lines of Defence

The Company practices the "three lines of defence" model in embedding risk management capability across the organisation. The model distinguishes between functions that own and manage risks, functions overseeing risks and functions providing independent assurance. All three lines of defence have specific tasks in the internal control governance framework. In this model, risk management and control is the first line, oversight challenge is the second and independent assurance is the third.




Control Assurance Map

Our control assurance map takes information from the risk and control output of the first line of defence to highlight the most significant risks and to indicate any areas where controls are not operating effectively or there have been risk incidents. The map also contains the principal risks identified by the Board. Onto this we map the second line – Compliance and Risk Monitoring – and third line – Internal Audit – assurance activity for the current year, prior year and year ahead to provide a view on the coverage of these assignments as well as the ratings of those assignments that have been completed. This is designed to help ensure the assurance plans cover the appropriate areas.

Risk Management continued

PRINCIPAL RISK	DESCRIPTION	MITIGATING ACTIONS/CONTROLS
1. Outstanding Service We are unable to maintain an outstanding service at a fair price Related Strategic Objectives > Invest in systems, people & processes > Transform Membership, the brand and our commercial model > Deliver a step-change in our digital capability	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 will, if not addressed, impact on our continued ability to deliver the service level our Members expect.	We will continue to 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. On-going monitoring of complaints, press reports and social media informs our service offerings.
2. Roadside Market Share and Margin We are unable to maintain our market share and gross margin on our roadside services Related Strategic Objectives > Transform Membership, the brand and our commercial model > Continue to develop the core Roadside Assistance business via innovation and optimisation	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 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. Programmes of immediate and long term initiatives are being undertaken to understand issues and drive lower costs.
3. Growing the business We are unable to grow the business in a manner that complements and sustains the brand Related Strategic Objectives > Capture opportunities in adjacent sectors using the brand	We may be unable to develop and grow new profitable business products and lines that complement the customer experience and which demonstrate standards and values that underly our core brand.	We continue to pursue 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.
4. Insurance Business Broker (AAIS): aggregators and price comparison sites will further damage the insurance broker model Insurer (AAUICL): higher than anticipated claims costs Related Strategic Objective > Evolve the Insurance and Financial Services business models	The further growth of price comparison sites may continue to transfer value from our insurance broking business. There are risks of higher than expected claims frequency, higher average cost per claim and catastrophic claims.	We are using our strengths in the brand, channels and data to mitigate this risk. We are building new capability that should enable us to provide a competitive response to these intermediary sites. Best practice is deployed to manage claims frequency, development & costs. The solvency structure plus excess of loss reinsurance is used to help protect us against costly individual claims.
5. Regulatory Environment A changing regulatory environment may adversely affect our activities Related Strategic Objective > Evolve the Insurance and Financial Services business models	The changing regulatory environment could cause currently compliant services to become non-compliant with material implications to customer offerings, pricing and profitability. Failure to comply with regulatory obligations could result in substantial fines. Changes in Government legislation or taxation could impact the business model.	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. Our Regulatory and Legal Change Committee tracks forthcoming changes and advises the business on changes required.

Key Impact, Likelihood and Trend

-  Improved since last year
 Same as last year
 Deteriorating position

CHANGE IN THE YEAR

IMPACT, LIKELIHOOD AND TREND

PRIMARY KPIS
(SEE PAGES 24 AND 25)

Improved diagnostic equipment has been rolled out to the Patrol force vans upgraded, and a multi fit spare wheel put in place. All these initiatives help improve the service to Members and reduce fix time and improve fix rates. The new improved AA App has been launched. More details on these and other initiatives can be found on pages 12-19.

The AA brand marketing campaigns have been substantially extended to demonstrate the AA's service promise.

Delivering outstanding service at a fair price is fundamental to our future and our brand. The impact of failure would be very high. The actions we have taken in the last year and have planned for the future have significantly reduced the probability of this risk crystallising.



> Patrols
 > Breakdowns attended

We have continued to win and retain contracts and increased market share in the important B2B Roadside market.

Following a successful pilot in March and April 2015, we launched a new product called Basic Breakdown Cover in September. The product is designed to meet the needs of customers only looking for a low cost stripped back product, and at the same time allows us to continue to promote the benefits of full membership.

During the year the AA entered into partnerships for several proposed new ventures in connected car technology. (See page 17)

The impact of competition on our roadside business could be high if continuous improvement is not made to the AA offering. While we have taken a number of actions during the year to help mitigate this risk we believe overall the risk remains unchanged.



> Personal Members
 > Business customer numbers
 > Patrols
 > Breakdowns attended

The AA launched a new partnership with Bank of Ireland UK who will now provide most of the AA's non insurance related Financial Services products. India Roadside Assistance Joint Venture signed with TVS in July.

Automyze has been launched, an innovative online platform which allows motorists to manage everything to do with car ownership securely online and for free.

The new AA Garage Guide connects motorists with great local garages, and allows them to book online for all their servicing, maintenance and repair needs.

The immediate impact is low as this is more a long term matter. While steps have been taken to grow the business it is too early to be able to tell with certainty if this risk has now reduced.



> Personal Members
 > Insurance policies
 > Trading EBITDA
 > Total Shareholder Return

We have launched our in house underwriter which will allow us to better compete in the insurance market place.

We are continuing to improve our website TheAA.com to encourage new business via this important channel.

We are strengthening direct to Member marketing.

Our new in house underwriter launched in January 2016 becoming a member of our Broking panel. Reinsurance was put in place to mitigate the new underwriting risks this introduced to the Group.

The competitive threat from aggregators has not changed during the year. The launch of our in house insurer should help to mitigate the risks to our insurance business in due course reducing the present high impact and likelihood.



> Insurance policies

NEW

This is a new Principal Risk. Without reinsurance and best practice in claims handling the potential impact would be high. We have put in place processes to reduce both the potential impact and the likelihood of this risk occurring.

Key developments in the regulatory landscape include the FCA policy statement on additional optional products ('add ons') and their consultation paper on the disclosure of last year's price in renewal invitations.

The AA Legislative and Regulatory Change Heat Map and Radar used to monitor this type of risk has been enhanced and relaunched during the 2016 financial year. This helps ensure that we identify proposed changes in the legal environment early on and have the opportunity to take part in consultations on the proposals and where appropriate lobby for changes. It also ensures we prepare to implement required changes on a timely basis.

The Government has announced two increases to insurance premium tax ("IPT") in succeeding budget statements.

The regulatory environment is expected to continue to be dynamic with a continuing programme of regulatory initiatives. These additional requirements may drive further commoditisation into the market at the expense of superior service differentiation.

Continued increases in IPT could make insurance products including Roadside Assistance less affordable for our customers.






Risk Management continued

PRINCIPAL RISK	DESCRIPTION	MITIGATING ACTIONS/CONTROLS
6 Business Transformation We are unable to successfully complete the essential business transformation Related Strategic Objective > Invest in systems, people and processes	We need to continue to develop new management processes to achieve the transformation required to develop the business	An accelerated business transformation programme is underway to recruit, develop and retain the required talent and enhance existing systems and management processes. We have a talent management model which we use. Where gaps are identified, development and/or recruitment interventions are put in place.
7 IT Transformation We are unable to successfully deliver the essential IT transformation required Related Strategic Objectives > Invest in systems, people and processes > Deliver a step-change in our digital capability	An essential programme of renewal and enhancement of our IT estates is in progress to address the risks to our brand and our competitive capability. It is extensive and involves a complex programme of work over the next 6 to 12 months. Given the scale and complexity, the programme involves inherent risks to the timely delivery of this implementation.	The management team is driving the overall programme supported by our risk management processes. The IT transformation is being led by executives with a proven track record of IT delivery. It is generally using proven technologies and where possible is being implemented and rolled out in discrete stages. Progress is overseen by the IT & Digital Transformation Steering Group.
8 Debt The AA is a highly leveraged company with a substantial pension fund, currently in deficit Related Strategic Objective > Reduce Group borrowings and the associated interest costs	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.
9 Information Security/Cyber Crime Related Strategic Objectives > Invest in systems, people and processes > Deliver a step change in our digital capability	Critical information is not available where and when it is needed. The integrity of critical information is corrupted or the confidentiality of commercially sensitive private or customer information is compromised by inappropriate disclosure.	The AA has an ongoing programme of security improvements to try and maintain a suitable level of security for the increasingly sophisticated world-wide cyber threats. Controls include information security awareness training, preventative and detective security, a specialist information security team, and information security requirements being included in third party arrangements. The AA benchmarks its security controls against the Center for Protection of National Infrastructure (CPNI) and associated Critical Security Controls (CSC).

Further information on financial risk management objectives and policies, including market, credit and liquidity risks is included in note 26 of the financial statements. Details on the Group's strategic objectives are included on pages 12 to 19.

Key Impact, Likelihood and Trend

-  Improved since last year
 Same as last year
 Deteriorating position

CHANGE IN THE YEAR

IMPACT, LIKELIHOOD AND TREND

PRIMARY KPIS
(SEE PAGES 24 AND 25)

A Transformation Director has been appointed to oversee the continued work to achieve the development of new management processes across the Group and maximise the benefits to be obtained from our IT renewal programme

Our Marketing, Digital Product and Pricing teams have been enhanced with new senior appointments

Our HR team has been reorganised to support the business better

Good progress has been made to identify and start implementing enhanced and new IT systems to better support our business model provide greater flexibility and good customer outcomes This complex project is on track to deliver the required enhancements

Progress includes the successful implementation of a new system for our Home Services business and improved technology support for our patrols

Failure to successfully transform the business would have a significant impact on our long term growth Strong management and oversight have been put in place to manage the risk of failure



New IT systems are key to the successful ongoing development of the AA The impact of a material delay to the implementation of the programme would be high Proven methodology with specialist IT development skills are in place to manage this risk



The Company completed a debt restructuring which reduced the average cost of debt from 5.9% to 5.0% and lengthened maturities from an average of 5.3 years at 31 January 2015 to 5.7 years at 31 July 2015 Whilst the Company remains highly leveraged this restructuring improves the ability of the Company to manage unforeseen financial shocks

The Government has recently announced potential changes to the deduction of interest for Corporation Tax, however the impact of this to the AA is not yet clear

The next triennial valuation will be carried out as at 31 March 2016 Preliminary indications suggest that the reduction in long term gilt yields since 2013 (the last valuation date) will cause this deficit to increase

While the AA has improved information security controls during the 2016 financial year we consider this risk to be increasing with the growing number of high profile cyber attacks on organisations

We consider this to be a continuing emerging/evolving risk and will continue to take additional steps to improve our controls taking guidance from external specialists

If this risk materialised the bondholders would appoint an administrative receiver to run the business for cash until all secured debt is repaid However the AA continues to be a high cash generating organisation and the likelihood is therefore very low and has reduced further since the debt restructuring



- > Leverage
- > Cash conversion
- > Interest cover

With the present volatility in the markets and global economic uncertainty the likelihood of this risk of increasing pension deficits is seen as high



As for any company the impact of this risk crystallising could be substantial In general for all businesses this risk is increasing with reported cyber-attacks becoming more sophisticated and more frequent



Viability statement

The Board has assessed the prospects of the Company in the context of the principal risks disclosed above and in the light of the current financial position of the Group This assessment was considered in the context of the Group's strategic planning over a period of three years from February 2016 The Directors considered a number of potential downside scenarios to the Group's plan These related to the Principal Risks on a scale of the potential impact based on the probability of occurrence

The ability of the Group to refinance its debt on the various expected maturity dates (as disclosed in note 18) is a key assumption within this assessment The Directors believe that, given the high liquidity of the sterling bond markets and the strong cash flows of the business, the likelihood of an inability to refinance is very low

As a highly leveraged business, the Group is subject to loan covenants as well as the broader requirement to pay liabilities when they fall due

The plan and downside scenarios were therefore assessed both in the context of making payments and meeting loan covenants and the business remained comfortably able to make payments and comply with covenants over the forecast period

Finally the Board considered what level of stress would cause the business viability to be put into question by means of a reverse stress test This indicated that the viability of the business would be threatened by an unexpected cash outflow of c£300m during the 2017 financial year, rising to in excess of £500m in the 2019 financial year The Directors felt it unlikely that an unexpected outflow of this magnitude would occur

Having considered all these elements of the assessment carefully the Board has a reasonable expectation that the business will continue in operation and meet its liabilities as they fall due for at least as long as the strategic planning time horizon

The AA's commitment to Corporate Responsibility

IMAGE
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"The AA's ambition is to make the life of the motorist easier, more affordable, and roads less congested and safer. We aim to make our Members' lives as motorists easier by providing them with not only the best roadside assistance service in the UK, but valuable wider motoring services too."

Edmund King
AA President

Mode share of average number of trips and distance travelled, 2014 (%)

IMAGE
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The AA is committed to building relationships of trust and mutual benefit with all our stakeholders including our Members, customers, shareholders, employees, contractors, suppliers, local charities and local communities. We focus on behaving responsibly, managing risk, and providing support and development. Corporate responsibility runs through the heart of what we do as a business and campaigning body.

The car plays an essential role in society and helps many of us to get the most out of our busy lives. It is the most common mode of travel in the UK accounting for 64% of trips made and 78% of distance travelled in 2014. There are now 29.6m cars on our roads. The good news is that progress in car manufacturing technologies over the last decade have delivered positive results for our industry including the reduction of car CO₂ emissions from new cars by 26.4%. The new car in 2015 was typically almost 20% more fuel efficient than one bought just five years ago.

As a business we also seek to be more efficient by using telematics to monitor fuel consumption of our patrol fleet which saved us more than £1m in the first year. Our IT investments will also help us deliver an even better, more personalised and more relevant service to our Members over the coming year. We have a large-scale digital transformation programme underway which is focused on helping our Members, whilst reducing marketing and administration print costs.

We provide our Members with the best breakdown service and we work hard to deliver this promise in many ways. Our comprehensive customer offering aims to address our Members' motoring needs. We help them avoid congestion, find parking and the cheapest local fuel with our new AA app. We make it easier for them to keep their car well maintained and legal through our Automyze vehicle management service, and help them find the best garages and check that they are receiving a fair quotation for any work.

Our patrols are our roadside ambassadors, trusted motoring allies who make life for our Members easier and safer. They are often heroes. For example, patrol Iain Gillespie witnessed a motorcycle crash last year on the opposite carriageway and went to help the unresponsive rider and performed CPR for 15 minutes before the ambulance arrived. Iain was awarded a citation from the Royal Humane Society for his brave life-saving actions. Our AA Charitable Trust for Road Safety and the Environment takes practical steps to help vulnerable and at risk drivers. Some examples of our work on the roads and in our communities can be found on the following pages.

Finally, we know what our Members believe the most important motoring issues are, because we ask them. Our AA Populus Panel is the largest dedicated motoring panel in Europe.

In essence we see corporate responsibility as core to our business strategy to make life easier for our Members and our wider stakeholders.

Edmund King
AA President
AA Charitable Trust Director
Visiting Professor of Transport, Newcastle University

- 1 The AA is widely associated with road safety and the best known awareness campaign is 'Think Bikes'
- 2 Our patrols once again supported the Help for Heroes 4x4 rally
- 3 Since our foundation in 1905 we have campaigned to protect the interests' of motorists

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Our Charitable Work

Our contribution to the community at large is represented by the extensive work of the AA Charitable Trust for Road Safety and the Environment (1125119). It was established in 2008 to educate and campaign on road safety and to show how the environmental impact of motoring can be reduced. The Trust, which is largely funded by donations from the Group, has conducted the following practical initiatives during the last year:

Improving road safety

We have continued a programme of driver training that aims to improve skills and confidence, thus making our roads safer. Specific initiatives are:

- **Drive Motorway** Free training to improve the confidence of drivers who are nervous of motorways, one of the most common fears as confirmed by AA Populus research
- **Drive Confident** Training to renew the confidence and improve the competence of nervous and lapsed drivers
- **Drive Smart** Training to teach young drivers, considered "at risk", safe and eco-friendly driving techniques
- The AA also supports events such as Thames Valley Police's **Safe Drive Stay Alive** roadshow

Driving lessons for young people in care

The Trust completed the pilot of the Driving for Looked After Young People project, which gave four teenagers in the care system the rare opportunity to learn to drive. The project was undertaken in conjunction with Bristol University and Bristol Council and the results highlighted the disproportionately positive effect of driving lessons on the candidates' self-esteem and confidence. The scheme is now being rolled-out in Newcastle, Medway and Westminster and a further pilot is planned in Bristol.

Employee charitable work

At a more individual level AA employees raised in excess of £150,000 for a wide range of national charities including the Children's Heart Unit Fund and the Royal National Institute of Blind People. We also responded to the devastating earthquake in Nepal by collecting blankets and funds. More locally, we raised funds for smaller charities and supported our communities through such events as litter clean-ups.

Many AA employees support BEN, the UK's dedicated charity for those who work, or have worked, in automotive-related industries. Our patrols once again supported the Help for Heroes 4x4 rally and various charity bike rides.

Our campaigning

Since our foundation in 1905 we have campaigned to protect the interests of motorists and our Members, striving to be the responsible motorists' champion. As a result the AA is widely associated with road safety and our best known awareness campaign is 'Think Bikes'.

In 2015, the campaign won the Fédération Internationale de l'Automobile (FIA) Innovation award, a UK fleet safety award, the Public Relations Consultants' Association (PRCA) Automotive Award, and the Federation Internationale de Motorcyclisme (FIM) campaign award. The Charitable Trust worked with the FIA to launch Think Bikes in Brussels outside the European Parliament and road safety groups in 24 countries, including Iceland, Italy, Iran and Lithuania, have adopted the 'Think Bikes' campaign.

Today we continue to influence Government policy in line with AA Members' views and concerns as expressed to us via the AA Populus Panel. This panel comprises more than 300,000 drivers and attracts approximately 25,000 responses each month. We know that AA Members' biggest concerns are the condition of the roads, in particular potholes, and the cost of motoring and road safety. The panel gives us the views with which to influence policy on issues such as fuel price transparency. We also use Populus data to work with external bodies on road safety campaigns, such as our joint work with the UK Environment Agency on flooding.

Corporate responsibility continued

During the 2016 financial year, the AA continued to work on campaigns including the following

- › Road Safety – SURVIVE group for motorway hard shoulder safety
- › AA/Jameson joint anti drink-driving campaigns
- › Support for EuroNCAP crash testing programme
- › Presentations to Road Safety GB, TISPOL international traffic Police conference
- › The AA regularly meets with ministers and opposition front bench, Select Committees and responds to Government consultations on important issues such as the driving test
- › Support for UN Decade of Action on Road Safety

OBE Award for AA President Edmund King

The AA is extremely proud that Edmund King was appointed an Officer of the Order of the British Empire (OBE) in the 2016 New Year's Honour List for his services to road safety. While his efforts at the AA have ensured AA Members are represented and their voice is heard, Edmund has been a tireless and dedicated campaigner on road safety over the past 25 years in his various roles with the AA, leading think-tanks and charities. He has measurably helped to improve road safety across the UK and internationally and this honour is a reflection of his long-standing commitment and the success of the campaigns, such as Think Bikes¹ that he has played a prominent role in delivering.

Edmund King acknowledged the collaborative nature of campaigns by describing the OBE as a "clear reflection of the efforts of my present and past colleagues and the road safety partners and organisations that I have worked with over the years". He remains dedicated to advancing road safety and educating drivers and many future campaigns are planned.

1 OBE Award for AA President Edmund King

2 We received a Gold Award in the Armed Forces Covenant Employer Recognition Scheme

3 Supporting Road Safety and SURVIVE group for motorway hard shoulder safety

4 Campaigned on behalf of drivers since 1905

5 AA litter cleaning

Our People

Our employees are key to our success. Their work is at the heart of what we do, meeting Members' needs and delivering the full range of services, products and benefits offered by the AA. We promote a culture where employees are empowered and incentivised to offer high quality customer service.

During the 2016 financial year we employed an average of 7,862 people. Our customer-facing patrols and advisors make up more than half our employees and deliver our core Roadside Assistance services 24 hours a day throughout the year.

Human Rights

We aim to engage all our stakeholders with fairness, dignity and respect and endorse the UN Declaration of Human Rights. The AA does not tolerate child labour and forced labour. We respect freedom of association and the rights of employees to be represented by trade unions or works councils. The AA is a fair employer and does not discriminate on the basis of gender, religion, age, disability and ethnicity.

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Our policy applies throughout the AA and it is communicated to our employees and contractors during induction training

Diversity

The Board recognises the benefits of diversity, including gender diversity, throughout the AA and ensures that we have an appropriate balance of skills and experience. More information can be found in our Corporate Governance report on pages 46 to 49

Employee engagement

We engage in regular dialogue with our employees through multiple channels. We communicate internally through the intranet and global emails, one to one meetings, in-house magazines and conferences and we engage in consultation with the AA's recognised union, the IDU and have an elected Management Forum

Training and Education

We are currently completely reviewing our management learning and development approach with the introduction of revised management training, and essential e-learning for all employees covering key areas such as Data Protection, Equality and Diversity, and Anti-Bribery and Corruption

During the year we trained line managers in our key human resources (HR) policies with the aim of developing them and equipping them with the necessary skills to support and lead their teams. This training was completed by the end of 2015 and from 2016, all new managers will be trained through available E-learning modules

We encourage all employees to carry out their work to the best of their ability. We promote learning and skills development opportunities across the organisation

We have a further education policy where financial assistance is provided to employees wishing to follow a vocational course aligned to their work

Extensive training is provided for patrols to keep their technical knowledge up to date at the AA's training centre in the Midlands. All contact centres have training departments that provide induction training and update employees on new processes and products

Employee Wellbeing

We offer a confidential Employee Wellbeing Programme to all AA employees and their immediate families. Various levels of support, including face-to-face counselling if appropriate, is provided free of charge and in confidence. During the 2016 financial year, 264 AA people used this service

We also have a dedicated occupational health provider, who offers professional advice and assessments in relation to physical and mental health issues to both the employee and the manager to ensure appropriate support is given

AA and the Armed Forces

In January 2016 the AA was recognised by the Prime Minister and the Defence Secretary as showing an outstanding commitment to supporting the Armed Forces. The AA has hired over 60 Armed Forces leavers in the past year alone

We received a Gold Award in the Armed Forces Covenant Employer Recognition Scheme. This recognises businesses that support those who serve or have served in the Armed Forces, or their families and ensures they are treated fairly. In addition to recognition for promoting the benefits of employing reserves and developing supportive HR policies, our work with The Poppy Factory, a charity which helps injured service personnel back into work, was also recognised

Apprentices

We aim to develop talent in our localities to help address youth unemployment and have run an apprenticeship programme in our call centre in Oldbury since 2009. More than 200 apprentices have completed the programme including 34 last year, the highest intake in a year. We are proud to have trained and developed 50 apprentices to work in full-time and critical, customer-facing roles delivering AA services and handling emergency calls

Our apprentices complete an NVQ Level 2 or 3 in customer service and functional skills through our partnership with Sandwell College. They are recruited from Birmingham and the Black Country where youth employment has been in excess of 20% for people aged between 16 and 24

Work Experience

Every summer we invite eight students from a local school to do work experience in Roadside Assistance. We also offer a programme with local schools to develop skills for employment, participating in mock interviews, assisting in CV writing, giving tips on applying for jobs and allowing visits to our sites to see how our business operates. This helps our local community and serves as a recruitment stream

We also work with local schools, colleges and businesses. We participated in a 'Mindshop Excellence' week with a local firm of solicitors to give Year 12 students from a local academy a 'real-world' business problem to solve

Corporate responsibility continued

1 AA DriveTech trainers lead Ford's Driving Skills for Life courses aimed at young drivers

2 Tony Rich, former AA patrol of the year, being presented with the FIM International Road Safety Award by Jorge Lorenzo, the MotoGP World Champion, for the Think Bikes campaign

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Health and Safety at the AA

Health and safety is one of our highest priorities. We strive to protect the health and safety of our employees and all the people we come into contact with. We are committed to fostering and maintaining a healthy and safe working environment.

Our safety management system is written to OSHAS 18001 standards, with AA DriveTech being certified to this standard. This helps us to identify risks and hazards and ensure our existing suite of policies and codes of behaviour are up-to-date and effective. Our systematic and comprehensive approach to health and safety includes goal setting, planning and performance measurement.

Our patrols work in potentially dangerous situations where the risks include moving traffic, slips, trips and falls, manual handling of equipment and road traffic collisions. We minimise risks through training, the equipment we give them and by reporting, investigating and learning lessons from accidents and near misses.

Safety Performance

High health and safety standards are implicit in our service to Members. During the year, we continued to focus on risk management, empowerment of our staff through their knowledge of health and safety and improving Near-Miss reporting.

We look for continual improvement by monitoring performance and auditing our systems to ensure our management of health and safety remains effective. In addition, we also have in place improvement programmes which identify objectives and targets along with the action plan we will implement to achieve these.

Since 2010 we have seen year on year improvement in our accident performance with the number of accidents halving over five years. This improvement has been achieved through implementation and delivery of safety training programmes and focusing on performance monitoring and measurement. See the graphs above.

In the 2016 financial year, we improved our Near-Miss reporting system with an on-line reporting tool for patrols which has resulted in more near-misses being reported to us than accidents. The AA is the only UK breakdown company to actively collect, collate and act upon Near-Miss reporting, enabling us to take action to minimise potential accidents.

Protecting our Members

We were the first UK breakdown company to begin our response to breakdown calls with safety advice to ensure Members are given this all-important information immediately. We were also the first to pioneer three-way telephone calls between us, the Member and the Police for breakdown situations in dangerous locations.

Protecting all motorists and road users

We work closely with motor manufacturers and the UK Government to help improve the safety of our roads. For example, AA DriveTech trainers lead Ford's Driving Skills for Life courses aimed at young drivers. In addition, we have trialled smaller recovery trucks in London which are designed to meet the requirements of the London Safe Lorry Scheme. This has been successful and plans are in place to bring these lorries to 50% of our London fleet, helping us to do our part in supporting Transport for London's "Safe Streets for London" project.

Looking after the Environment

The AA's aim is to manage our operations and delivery of products and services in a sustainable way. We seek to reduce emissions, waste and make efficient use of resources. We comply with legal requirements and aim for best practice in our industry to minimise our effect on the environment. This involves our facilities departments, internal communications teams, marketing teams and procurement teams and the use of advancements in technology to address our issues.

Our main focus is on reducing greenhouse gas (GHG) emissions. Our operational fleet of vehicles accounts for 78% of our market based GHG emissions while our buildings account for 18%, the remainder comes from our company cars. We also minimise waste and recycle and reuse where possible.

Certification

To demonstrate commitment to effective management of our environmental risks, AA Road Services, Home Services and AA DriveTech are externally certified to the International Standard ISO 14001 for their Environmental Management System. This covers roadside repair, recovery, fuel and key services, home services and AA DriveTech fleet driver checking and training.

Managing our fleet of vehicles

We have several initiatives in place to help manage the impact of our fleet on the environment.

- › Advanced telematics helps us monitor driving style. As a result of this programme, it reduced our fuel expenditure by more than £1m in the first year and cut vehicle emissions. In addition, all vehicles are fitted with speed limiters.
- › Vehicle efficiency is a key factor in the selection of our vehicles. Zero-emission options are considered when replacing vehicles but their suitability is currently limited. AA patrols have trialled electric scooters and vans in London but neither were successful due to operational constraints.
- › We are minimising waste through the reuse of vehicle equipment whenever possible. The tools and equipment used by patrols are refurbished and reused and we are actively identifying additional equipment which can be reused.

AA DriveTech, our driving training business within Driving Services, supports eco-driving. It includes eco-driving components in all core AA DriveTech training courses it conducts as part of its relationship with the Energy Savings Trust.

Energy Use at our Buildings

The 2015 ISO 14001 external audit noted that the AA has achieved a significant level of detail in energy reporting for the portfolio as a whole and for the larger sites in particular. This enhancement allows us to see where our major energy consumption occurs and where to focus on reducing it.

We actively manage energy use within our buildings which accounts for 18% of our market based GHG emissions. The AA has a dedicated Energy Manager to manage energy consumption and identify potential savings at all sites. In the 2016 financial year we improved our energy usage through an upgrade of our Building Management System at a major site. As a result our energy consumption profile has improved significantly, overnight base loads have reduced, plant control has improved, and building systems are responding better to external factors such as the weather. We have also improved the tuning of Building Management Systems in other sites to manage energy consumption.

IMAGE
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Corporate responsibility continued

Waste

We have reduced waste going to landfill to zero at our main sites by working closely with our Facilities Management partner and their waste contractors

Water and Paper Usage

All of our print suppliers have certifications to ISO9001 and ISO14001 for Quality and Environmental Management and the paper used is accredited to either of the two sustainability standards FSC™ – Forest Stewardship Council™ or PEFC – the Programme for the Endorsement of Forest Certification. However, as part of our IT systems transformation, we will increase the number of Members that we can contact via email, allowing us to switch more of our marketing to digital channels and reduce our reliance on print. To minimise our paper usage, we have installed more sophisticated printers at our main sites

Our offices do not use water beyond basic needs and we measure and monitor water use as part of our practices

Greenhouse Gas Table

In accordance with The Companies Act 2006 (Strategic Report & Directors' Reports) Regulations 2013, we publish annual Group performance data for our greenhouse gas ('GHG') emissions. Our GHG footprint boundaries identify the scope of the data we monitor and are deemed material to our environmental impact. The 2015 financial year is used as our baseline year for measuring our GHG footprint.

The Group's total GHG emissions for the 2016 financial year were 50,844 tCO₂e (market-based) and 49,781 tCO₂e (location-based). See table below. This primarily comprised of operational fuel consumption from our operational fleet, representing up to 80% of the total footprint.

Absolute emissions have been reported here, for both Market-based and Location-based emissions. Overall, there has been a 1.55% reduction in market-based emissions (2.33% reduction for location-based emissions) from the 2015 financial year.

Assurance

The AA recognises assurance and verification as a component of a responsible reporting approach. While there is no statutory requirement to have GHG environmental information audited in the Directors' report, we strive to ensure best practice on environmental issues and are planning for verification reporting in future reporting years. The AA has engaged CBRE's Energy & Sustainability team to assist in compiling the GHG calculations, including developing a best-practice data management programme, and assisting in determining the scope of what is material for inclusion in the environmental report.

TOTAL EMISSIONS				
Emission Source	2016 Emissions (tCO ₂ e)		2015 Emissions (tCO ₂ e)	
	(Market-based)	(Location-based)	(Market-based)	(Location-based)
Combustion of fuel & operation of facilities (Scope 1)	43,267	43,267	43,463	43,463
Electricity, heat, steam & cooling purchased for own use (Scope 2)	7,577	6,514	8,193	7,517
Total Footprint	50,844	49,781	51,656	50,979
Outside Scopes	1,375	1,375	989	989
Intensity Measurement 1 tCO ₂ e/ft ²	0.01385	0.01222	0.01584	0.01472
Intensity Measurement 2 tCO ₂ e/no. of operational jobs	0.01128		0.01320	

* The Group uses biofuel blend for Scope 1 mobile combustion. Outside of scope, emission factors should be used to account for the direct CO₂ impact of burning biomass and biofuels. The Group has therefore calculated Out of Scope emissions to account for petrol & diesel biofuel use.

Category	Emission Source	2015/16 Market-based tCO ₂ e	% of emissions	2014/15 Market-based tCO ₂ e	% of emissions
Operational Fleet	Scope 1	39,797	78.27%	39,625	76.73%
Company Cars	Scope 1	1,730	3.40%	1,809	3.50%
Property – Energy	Scope 1 & 2	9,317	18.32%	10,209	19.77%

Total Scope 1 & 2 Emissions (Market-Based)

Total Scope 1 & 2 Emissions (Market-Based)

IMAGE REMOVED

IMAGE REMOVED

Intensity Ratio In addition to total emissions, the Group monitors emissions from our offices and operations. This allows us to express our annual emissions in relation to the operational size and efficiency of our business. Intensity ratios have been calculated where this data is available and excludes company car emissions.

Methodology We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. We have calculated and reported our emissions in line with the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and emission factors from Defra GHG Conversion Factors for Company Reporting 2015. The boundaries of the GHG inventory have been defined using the operational control approach. AA The Driving School Agency Limited emissions are considered to be out of scope. The AA Driving School operates as a franchise and the Group does not have equity rights or control over the franchisees. Home-based teleworkers operations have also not been included in the consolidation of GHG emissions data as the Group does not have responsibility for the energy usage, and so it has been categorised as indirect Scope 3 emissions.

Baseline Amendments The reported emissions in the 2015 financial year have been reviewed and amended. The figures have been updated to include actual data rather than estimations, and the operational fleet dataset has been amended to be a complete dataset including all active vehicles.

Scope 2 Reporting Changes to the GHG Protocol for Scope 2 reporting have been incorporated in to this disclosure. Scope 2 emissions have been reported using both location-based emission factors and market-based factors based on our specific supply contracts. Market-based emission factors have been applied for both the 2015 dataset and the 2016 published data to allow for a year on year comparison.

Governance report

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Governance Report Introduction

IMAGE
REMOVED

“Your Board is focused on delivering outstanding results and building long-term value for the AA shareholders and we firmly believe that the governance standards and behaviours we set and display are paramount to achieving this ”

Bob Mackenzie
Executive Chairman

Dear Shareholder

In our second year as a premium listed company we are proud to present our Corporate Governance Report which provides a transparent and accountable review of the Board's actions during the financial year ended 31 January 2016. Moreover, the report highlights the commitment of the AA Board and Group towards evolving a best-practice approach to governance that reinforces our core values and underpins the sustainability of the AA, a remarkable business in which we all believe.

This has been another year of significant change for the business, as we have focused on delivering the three strategic objectives set out at the IPO to strengthen our foundations to become the UK's pre-eminent Membership services organisation, to revolutionise customer experience through investing and embracing new technology and, finally, to reduce group borrowings and the associated interest costs.

Intrinsic to the success of our implementation is the effectiveness of your Board, the Executive Committee and the governance structures that feed into them. Thus, our governance strategy is to ensure that, as well as having the appropriate processes, procedures and standards in place, we have the best individuals leading at the top, working collaboratively to achieve our vision for the AA.

Our leaders exert entrepreneurial drive yet prudent control and this transposes to a corporate-wide culture of mutual respect and innovative yet responsible behaviour. Strong governance values may be created in the boardroom but are only truly effective when integrated and evident in every aspect of a business's activities.

For this culture to succeed, we recognise that our people must have access to quality and timely information, so that our feedback and decision-making processes are appropriate and effective. Achieving this state is a progressive process which requires our constant attention, commitment and action. With the work that we have completed during the past year we are confident that we have laid strong foundations for building long-term value.

Overview

Our most significant governance developments for the 2016 financial year are summarised below.

- 1 Overseeing the development of the senior management team to ensure that the best people are in place to deliver our transformation. This is discussed in more detail in the Leadership section on pages 46-53.
- 2 Undertaking our first board performance evaluation. Being the first review, the overall aim was to measure the current performance of the Board and identify areas for improvement in future years. We all found it to be an insightful and valuable development for our Board and a summary of this internal review and the outcomes is set out within the Effectiveness section on pages 54-61.
- 3 Conducting a full and successful search process to recruit an additional high calibre Non-Executive Director. With our priority being to maintain a robust board composition with the collective skills, knowledge and experience required to deliver the transformation objectives and long-term growth strategy, we were pleased to announce the appointment of Suzi Williams with effect from 1 October 2015. Suzi brings a wealth of experience with customer-facing companies and brands. Her biography can be found on page 46 and a discussion of the recruitment process is in the Nomination Committee report on pages 59-61.
- 4 Risk development. Continuing development of the risk function to make risk consideration an important part of daily decision making, and improvement of the identification, mitigation and reporting of risk to the business, management and the Board. Further details of these changes are set out in the Risk Committee report on pages 62-63.
- 5 Strengthening our investor relations. During the year, Board Members met with a number of our key investors to hear their views on the AA's governance and strategy. A number of subjects were covered including cyber risks, IT transformation, share ownership guidelines and other remuneration related issues. As a result of these meetings we have a greater understanding of matters important to our investors and these are reflected throughout this year's annual report and discussed in more detail in our Relations with Shareholders section on page 77.

Board Changes

Margaret Young resigned as Non-Executive Director on 25 February 2015 and Nick Hewitt resigned as an Executive Director of the AA for personal reasons on 31 July 2015. Having played a significant part in the management buy-in in June 2014, Nick stepped down as a Director as we entered the operational phase of our transformation. He has continued to support us on several key projects until February 2016.

Dual Role

The Board is still in agreement that it is in the best interests of the Group that I remain in the role of Executive Chairman until the business transformation is delivered. We are attentive to the implications of a combined role of Chairman and Chief Executive Officer and have acted to ensure that there are clear written divisions of responsibilities between my combined roles and the enhanced role of John Leach as our Senior Independent Non-Executive Director, as recommended by the UK Corporate Governance Code (the Code), and these are laid out on page 51.

Given the combined role, John Leach as our Senior Independent Director, has additional responsibility for oversight on Board governance and process and he works with our Non-Executive Directors to make sure all decisions taken are made with full approval of the Board. A summary of roles and responsibilities of the Board are set out in this report on pages 50-51.

We are firmly of the opinion that as a Board we have a healthy balance of skills, experience and independence to sustain the long-term growth of our business. A succession plan has been approved and is discussed in the Nomination Committee Report on pages 59-61. It is still our intention that we will start to consider appointment of a new CEO after 2017 and that I will then take up the role of Non-Executive Chairman, thereby improving compliance with the Code, which can be found at www.frc.org.uk.

UK Code Compliance

On the following pages we describe our approach to governance and the work of our committees in more detail. Our compliance with the required regulatory and statutory standards for a premium listed company is reflected throughout this governance report and we are pleased to report that, except for the combined roles of Chairman and Chief Executive Officer, the Group is in full compliance with the Code.

Bob Mackenzie

Chief Executive, 4 April 2016

John Leach

Senior Independent Director, 4 April 2016

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"I am privileged to support the work of the Executive Chairman, all Directors and the Company Secretary to protect the interests of the AA's stakeholders by ensuring that our approach to governance is strong and effective."

John Leach

Senior Independent Director (SID)

Leadership

Our Board

(N)

IMAGE
REMOVED**Bob Mackenzie** (63) Executive Chairman

Appointment date June 2014

Career, skills and experience Bob qualified as a Chartered Accountant with KPMG in 1978 and has extensive experience of leading consumer services businesses and delivering highly successful business transformation programmes. Previously, Bob held positions as Chairman and CEO of National Car Parks and Green Flag, as well as CEO of Sea Containers Ltd and Chairman of PHS Group plc and a number of other senior executive board positions within consumer services companies. Bob stepped down as chairman of Northgate plc in September 2015.

IMAGE
REMOVED**Martin Clarke** (60) Chief Financial Officer

Appointment date June 2014

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

(N) (RI) (A)

IMAGE
REMOVED**John Leach** (67) Senior Independent Non-Executive Director

Appointment date June 2014

Career, skills and experience John is a fellow of the Institute of Chartered Accountants and Association of Corporate Treasurers and has served public company boards in the roles of Chairman, CEO or CFO for the past 35 years. He has considerable experience in turnaround situations in the service and industrial sector. Most recently, John was CEO at Hermes UK Focus Funds and a supervisory board Member of Dometic AB. Previously John has held positions at Brent Walker, Myson Group and Luminar.

(N) (R)

IMAGE
REMOVED**Simon Breakwell** (51) Non-Executive Director

Appointment date September 2014

Career, skills and experience Simon brings significant digital and travel experience to the Board. He was a Founder of Expedia and became President of Expedia International Inc. where he led the growth of the business in the Europe, Middle East and Africa regions including both the Hotels.com and Expedia brands. He recently established the European operations of uber.com and is currently a venture partner at TCV, one of the leading global mid-cap funds, as well as a Non-Executive Director of HomeAway.

(A) (RI) (R)

IMAGE
REMOVED**Andrew Miller** (49) Non-Executive Director

Appointment date June 2014

Career, skills and experience Andrew has extensive experience of successful digital transformation in consumer facing industries. As former CEO of the Guardian Media Group, Andrew has reshaped the company's portfolio of businesses into one of the world's leading digital organisations with over 100 million readers each month. He carried out a similar transformation as CFO and non-executive director of Trader Media Group/Autotrader in its transition from magazines to a wholly digital company. Andrew has previously worked at Pepsico, Bass plc and Procter & Gamble.

(N) (RI) (R)

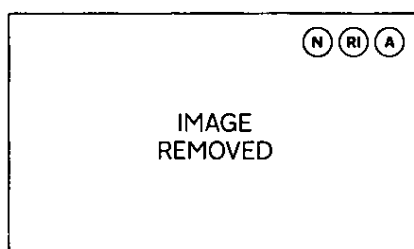
IMAGE
REMOVED**Suzi Williams** (48) Non-Executive Director

Appointment date October 2015

Career, skills and experience A Procter & Gamble trained brand marketer & business leader, Suzi has spent the last twenty years delivering commercial transformation and growth on household names like the BBC, Orange and Capital Radio Group. In September 2015 – after a highly successful ten year tenure she stepped down from her role as Group Marketing & Brand Director of BT having led BT's Olympic & Paralympic programme and more than tripled the value of the BT Brand.

Key to committees

- (N)** Nomination Committee
- (RI)** Risk Committee
- (A)** Audit Committee
- (R)** Remuneration Committee

**Andrew Blowers (55) Non-Executive Director**

Appointment date September 2014

Career, skills and experience Andrew is a successful entrepreneur who has established and sold several companies in the insurance industry during the past 25 years, most recently the online insurer SwiftCover. Previously, having sold an insurance operation to them, Andrew served as an Executive Director for Churchill Insurance. Andrew was awarded an OBE in 2009. Andrew has also worked in an advisory capacity with both the Financial Ombudsman and the Consumers' Association. He brings a wealth of financial services related experience to the Board.

**Mark Millar (46) General Counsel and Company Secretary**

Appointment date September 2014

Career, skills and experience A qualified solicitor, Mark was formerly Company Secretary at Domino's Pizza Group plc and Future plc and has twelve years of experience in the role. Mark also has a wealth of commercial and legal expertise including ten years as a City solicitor, latterly with Allen & Overy.

Mark attends all Board and committee meetings

Board experience

The composition of the Board has been balanced to align with our strategic objectives and corporate responsibilities.

Our Board Members combine a wealth of experience that includes proven operational, financial, strategic and marketing skills assembled over thirty years in executive management, private equity, and strategic consulting.

Together the Board is committed to transforming the business and building long-term value.

Leadership

Executive CommitteeIMAGE
REMOVED**Bob Mackenzie** (63) Executive Chairman

Appointment date June 2014

Career, skills and experience Bob qualified as a Chartered Accountant with KPMG in 1978 and has extensive experience of leading consumer services businesses and delivering highly successful business transformation programmes. Previously, Bob held positions as Chairman and CEO of National Car Parks and Green Flag, as well as CEO of Sea Containers Ltd and Chairman of PHS Group plc and a number of other senior executive board positions within consumer services companies. Bob stepped down as chairman of Northgate plc in September 2015.

IMAGE
REMOVED**Martin Clarke** (60) Chief Financial Officer

Appointment date June 2014

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

IMAGE
REMOVED**Janet Connor** (51) Restructuring & Insurance Director and CEO of Automobile Association Insurance Services Ltd (AAISL)

Appointment date August 2014

Career, skills and experience Janet has accountability for the AA Broking Operation as the CEO of AAISL. Under the Management re-organisation in 2015 Janet assumed executive responsibility for the AA's programme of restructuring and transformation, Human Resources and the new insurance underwriter. She is a Fellow of the Institute of Directors and has pursued a successful career in consumer financial services across retail banking and insurance. For the last ten years, prior to joining the AA, she has held board level appointments in large complex insurance companies.

IMAGE
REMOVED**Mike Lloyd** (38) Commercial Director

Appointment date September 2014

Career, skills and experience Mike is responsible for our Consumer Roadside, Business Services and Financial Services businesses as well as the marketing, digital and public affairs functions for the AA. He is an Executive Director of Automobile Association Insurance Services. Mike was previously a Partner at Oliver Wyman leading their Consumer Services work in the UK.

IMAGE
REMOVED**Olly Kunc** (37) Operations Director

Appointment date August 2014

Career, skills and experience Olly holds responsibility for the operations of the AA including patrols, deployment, call centres and technical development. Since joining to run Home Services in August 2014, he took over the Roadside Operation in October and since then has expanded Operations to bring together all customer facing activities and focusing on customer outcomes. Prior to joining, Olly worked in both strategy and operations roles at L E K Consulting, British Airways, Barclaycard and most recently British Gas where he was Managing Director of the Boiler Installation business.

IMAGE
REMOVED**Kirsty Lloyd-Jukes** (32) Membership Services Director

Appointment date June 2014

Career, skills and experience Kirsty is responsible for the Motoring Services, Media and Driving Schools businesses as well as leading the connected car strategy. She is also the Group Strategy Director. Kirsty previously worked for Oliver Wyman as a Principal in the Consumer Services division.

IMAGE
REMOVED

Geraint Hayter (42) Director of IT

Appointment date April 2015

Career, skills and experience Geraint is responsible for delivering all IT services to the Group and is working on transforming the IT organisation for the future. He has over 20 years of experience working in IT at large corporate organisations. Prior to joining the AA, Geraint worked at TUI Travel for 4 years, where he was the Director of IT for the UK business and was responsible for delivering the IT elements of a major transformation programme. Prior to this, Geraint worked at 3M for 16 years, having joined as a Graduate Trainee, Geraint's last position was IT Director for the UK and Ireland Business.

IMAGE
REMOVED

Mark Millar (46) Company Secretary

Appointment date September 2014

Career, skills and experience A qualified solicitor, Mark was formerly Company Secretary at Domino's Pizza Group plc and Future plc and has twelve years of experience in the role. Mark also has a wealth of commercial and legal expertise including ten years as a City solicitor, latterly with Allen & Overy.

Mark attends all Board and committee meetings.

Details of the Executive Directors' service contracts are set out in the Directors' Remuneration Report on pages 64-76.

Board diversity

We recognise that diversity in its broadest sense can enhance our decision making process and overall effectiveness of the Board. We have a robust board process in place to ensure different opinions can be voiced, heard and considered.

Our policy on recruitment is always to seek to appoint the best candidate to each role, whilst having regard to the composition in terms of age, gender, knowledge and background of the Board, Executive Management and Group.

In particular, we monitor and seek to ensure a good balance of male and female employees throughout our Group and we continue to build a supportive and flexible culture that enables us to develop and retain women in senior positions.

The Board is committed to meeting Lord Davies' extended target for Women on Boards of 33% female membership by 2020. As we build a pipeline of diverse and talented individuals, we are confident about meeting this target.

More information on our diversity policy can be found in our effectiveness section on pages 54-61.

Gender diversity

Board

IMAGE
REMOVED

Executive Management

IMAGE
REMOVED

Leadership Team

IMAGE
REMOVED

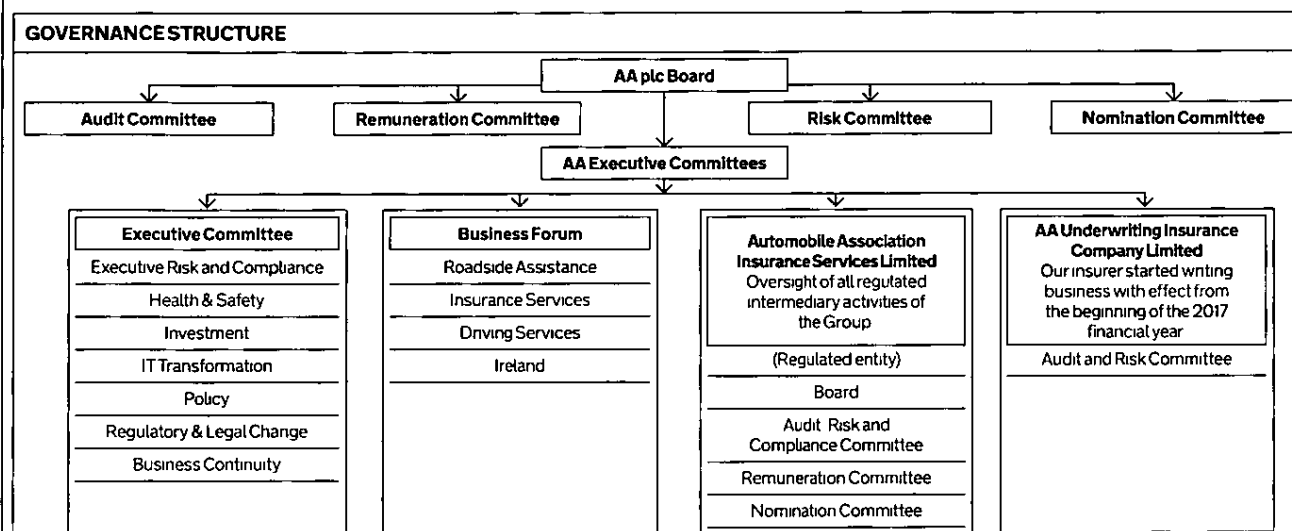
All Employees

IMAGE
REMOVED

Given the nature of our business, a higher male to female ratio is expected at the All Employees level.

Leadership

Governance Structure



The role of the Board and the Committees

The Board is responsible for delivering sustainable shareholder value over the long term and the overall financial performance of the Group. It sets the strategic direction and provides leadership and direction through effective delegation, oversight and review. The Board determines the Group's risk appetite and the risk management framework and is also responsible for corporate governance and setting the tone from the top.

The Board delegates certain responsibilities to its principal Committees to assist it in carrying out its functions of ensuring independent oversight. Our principal Board Committees' constitutions include independent Non-Executive Directors and play a key role in supporting the Board. A detailed report on the activities undertaken by each Committee in the 2016 financial year is given by the relevant Chairperson later in this report.

Nomination Committee [p59](#) **Audit Committee** [p54](#)

Risk Committee [p62](#) **Remuneration Committee** [p64](#)

The Board delegates the implementation of strategy and day-to-day management of the Group's operations to the Executive Committees.

Regulated Activities

A number of the Group's businesses include regulated activities and the Group has several regulated subsidiaries. The main such subsidiary is Automobile Association Insurance Services Limited (AAISL), which has a board which includes three independent non-executive directors. The Board works closely with the AAISL board to ensure that appropriate governance is followed in respect of all regulated Group activities.

Information Flow and Decision making

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

A key principle of the framework is the delegation of operational management to the Executive Committee with a matrix of authorities setting out how this is further delegated through the organisation.

The Executive management team gives strategic focus and is responsible for managing the operational and financial performance of the Group by coordinating the work of the specialist business areas. This enables the efficient and effective day to day operation of the Group's businesses.

The Board is kept up to date with developments in the business, including the work of the leadership teams, through the Executive Chairman and Chief Financial Officer's regular reports, which are discussed in detail at each Board meeting. Sufficient time is given both before and at the end of each Board meeting for the Executive Chairman to meet privately with the Senior Independent Non-Executive Director and Non-Executive Directors to discuss any matters.

Matters Reserved for the Board

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

These include:

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

Matters requiring Board and Committee approval are submitted to the Board, together with supporting documentation, as part of the Board or Committee papers. At each Board meeting, the Board pack includes updates from the Executive Chairman and Chief Financial Officer and contains financial results and other functional updates. There are presentations on the Company's operations and regular discussions on strategy, marketing, shareholder matters, employee engagement, corporate responsibility and governance matters.

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

ROLES AND RESPONSIBILITIES

Clear Division of Responsibilities

In order for the Board to operate effectively and fulfil its aspirations, it is essential that clear roles and responsibilities are defined and followed. We recognise that clarity in this area is particularly important given Bob Mackenzie's dual role of Executive Chairman. John Leach's role as SID has been broadened accordingly to provide additional oversight on governance matters.

The Board meets the Code requirement for more than half of the Members to be independent.



Executive Chairman Bob Mackenzie

Role

Providing coherent leadership and ensuring effectiveness in the running of the Board

Meeting with major shareholders on both strategic and governance matters

Ensuring effective communications by the Group with its shareholders

Ensuring Directors receive accurate, timely and clear information and ensuring that agendas emphasise strategic issues

Taking the lead in providing a properly constructed, full, formal and tailored induction programme for new Directors

Ensuring the Group complies with its regulatory obligations and ensuring good links between the Board and the independent boards of the regulated subsidiaries

Ensuring the Board is alerted to forthcoming complex contentious or sensitive issues affecting the Group

Implementing the decisions of the Board and its Committees

Leading the Group's strategic development direction and objectives

Reviewing the Group's organisational structure and recommending changes as appropriate

Identifying and executing new business opportunities

Identifying and executing acquisitions and disposals and leading geographic diversification initiatives

Managing the Group's risk profile including the health and safety performance of the Group

Leading the Group's Corporate Responsibility programme

Building and maintaining effective leadership teams



Senior Independent Non-Executive Director John Leach

Role

Acting as a sounding board for the Executive Chairman and a trusted intermediary for the other Directors

Providing additional governance oversight given the dual role of Executive Chairman

Meeting regularly with the independent Non-Executive Directors to facilitate their effective contribution

Holding an annual meeting without the Executive Chairman present to evaluate his performance

Being available to shareholders if they request contact both generally and when the normal channels of Executive Chairman or Chief Financial Officer are inappropriate



Chief Financial Officer Martin Clarke

Role

Recommending to the Board an annual budget and financial plan

Examining all trade investments and major capital expenditure proposed by Group companies

Overseeing risk management, treasury and internal controls

Ensuring effective communication with shareholders and key stakeholders and updating institutional investors on the business strategy and performance

Recommending to the Board appropriate changes to the capital structure and debt levels

Maintaining relationships with the Group's banks and managing the investment and banking portfolio

Managing the Group's risk profile including the health and safety performance of the Group

Implementing the decisions of the Board and its Committees

Building and maintaining effective leadership teams

Ensuring the Board is alerted to forthcoming complex contentious or sensitive issues affecting the Group

Identifying and executing new business opportunities



Non-Executive Directors Andrew Blowers, Simon Breakwell, Andrew Miller, Suzi Williams

Role

Strategic and creative contribution to the Board

Independence, impartiality, experience, special knowledge and bringing a different perspective to the Board

Providing guidance on matters of concern and strategy development

Oversight of risk management and internal controls

Protection of shareholder and stakeholder interests



Company Secretary Mark Millar

Role

Developing, implementing and sustaining high standards of corporate governance

Supporting the Executive Chairman and other Board Members as necessary

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

Communicating with shareholders and keeping the Board informed of shareholder opinions

Co-ordinating the induction of new directors

Ensuring compliance with statutory and regulatory requirements

Reviewing and monitoring the Group's remuneration policy

Ensuring the Group complies with its regulatory obligations and ensuring good links between the Board and the independent boards of the regulated subsidiaries

Governance continued

CALENDAR OF GOVERNANCE MEETINGS IN FINANCIAL YEAR 2016											
	Feb	Mar	Apr	May	Jun	Jul	Sep	Oct	Nov	Dec	Jan
Scheduled Board meetings											
Board calls											
Strategy Workshops											
Special meeting (refinancing)											
AGM											
Nomination Committee											
Audit Committee											
Risk Committee											
Remuneration Committee											

BOARD ATTENDANCE

The Board held nine scheduled meetings and calls and one special meeting during the year and individual attendance is set out in the table below. A two-day strategy session was held away from the Head Office on 9 and 10 November 2015. All Board Members attended the AGM. Committee attendance is set out in the individual reports.

Name of Director	Date appointed	Date resigned	A	B	% of meetings attended
Bob Mackenzie Executive Chairman	26 Jun 2014	-	11	11	100%
Martin Clarke Chief Financial Officer	26 Sep 2014	-	11	11	100%
John Leach Senior Independent Director (from 13 Nov 2014)	26 Jun 2014	-	11	11	100%
Andrew Blowers Non-Executive Director	25 Sep 2014	-	11	11	100%
Simon Breakwell Non-Executive Director	17 Sep 2014	-	11	11	100%
Andrew Miller Non-Executive Director	26 Jun 2014	-	11	11	100%
Suzi Williams Non-Executive Director	1 Oct 2015	-	4	4	100%
Former Director					
Margaret Young	26 Jun 2014	25 Feb 2015	1	1	100%
Nick Hewitt	26 Jun 2014	31 Jul 2015	0	0	n/a

Notes

A = Number of meetings and calls the Director attended

B = Maximum number of meetings and calls the Director could have attended

Although Nick Hewitt was a director for six meetings, he was not eligible to attend due to ill health.

Where appropriate, Members of the AA Executive Management Committee and specialist external speakers were invited to give presentations at Board meetings.

Board Activity during the year

Strategic progress

Progress against strategy is discussed at each scheduled Board meeting to closely monitor strategy implementation by the AA Group. The two-day strategy session held away from Head Office on 9 and 10 November 2015 provided the opportunity for more relaxed, free-flowing discussion around a broad range of strategic issues. The Non-Executive Directors were able to share their expertise and provide independent oversight to the direction of the business. Discussions focused not only on the business plan but also the individuals leading and implementing that plan. These, and other teams that support them, are key to the delivery of the Board's objectives.

The Executive Committee and Board Members all attended a two-day strategy session in November 2015. This provided a unique and specific opportunity to develop strategy, address current issues and improve the performance of the business.

BOARD CALENDAR. KEY BUSINESS AT BOARD MEETINGS DURING THE 2016 FINANCIAL YEAR

February 2015
(Board Call)

Confirm new London office to open in June



OPEN

Review drafting of the first Annual Report

Approve Terms of Reference for regulated entity, AAISL Board and Committee

Review of PDMR Lists and compliance

Consider remuneration policy and introduction of Performance Share Plan (PSP)

March 2015
(Special meeting)

Review progress on Refinancing

Creation of special refinancing Committee



Approve investor presentation for the refinancing proposal and dividend statement

Receive Audit, Risk, Nomination and Remuneration Committee reports

(Board Meeting London)

Approve preliminary results statement



Approve Annual Report

Receive externally audited financial results

Note development of digital team and launch of new brand advertising

Strategic review

> Financial Services partnership

> Membership Proposition

Review responsibilities of the SID and Executive Chairman

Consideration of draft prospectus and offering memorandum in respect of the refinancing

**April 2015**
(Board Meeting London)

Approve establishment of insurer

Approve Financial Services partnership with the Bank of Ireland



Refinancing update

Investor relations report noting appointment of additional new broker

Strategic review

> Membership Proposition

Report opportunities in India

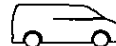
**June 2015**
(Board Meeting London)

Review and approve Q1 results

Strategic review

> Insurance and underwriting capacity

> Road operations



Progress check on IT transformation

Review health & safety reporting



Investor relations update – feedback on prelim results

Approve Indian JV

Financial strategy and three-year planning

Governance updates from Risk, Audit and Nomination Committees

Approval of Suzi Williams as Non Executive Director

(First AGM London)

First AGM

> approval of accounts

> all resolutions passed

July 2015
(Board Call)

Consider management restructuring

Review advertising campaign



Present three-year financial plan

Verbal updates from Remuneration and Nomination Committees

Discuss Nomination Committee planning for Board evaluation process

September 2015
(Board meeting Oldbury)

Strategy review

> Road operations – site visit

> Home Services

> AA Help deployment system

Demonstration of new IT platforms

Approved interim results dividend policy and interim dividend payment



Approve Conflicts of Interest policies

Approve governance framework

Review role of Executive Chairman and Senior Independent Director

Note Committee reports and evaluate effectiveness of risk, internal audit and compliance functions

October 2015
(Board Call)

Feedback from interim results

November 2015
(2-day strategy workshop)

Strategic focus and development of three-year plans for business areas

Commercial growth areas

Evolving the AA insurance model

Business and IT Transformation

Business readiness

December 2015
(Board Meeting Newcastle)

Update on insurance operations

Evaluate feedback from strategy workshops

Board review and succession planning

Review independence of Non Executive Directors

Strategic review

> Driving services

> India JV

> Presentation on connected car and telematics

> Insurance business site visit

January 2016
(Board Meeting Cheadle)

Board performance evaluation results

Update from remuneration committee

Strategic review

> Insurance business

> Ireland

2017 Budget approval

Call centre site visit

Planning ahead

Looking forward, the Board and its Committees will focus on

> The completion of our IT transformation project

> Developing and delivering our three year plan

> Succession planning including for a new CEO

> Implementation of strategic priorities

> Development of our governance framework

Effectiveness

Audit Committee Report

IMAGE
REMOVED

“During our second year as Audit Committee for the AA, we have remained focused on continuing to increase the effectiveness of our financial reporting and internal controls and improving the quality of our Audit Committee Report.”

Andrew Miller
Audit Committee Chairman

Accountability

During our second year as Audit Committee for the AA, we have remained focused on continuing to increase the effectiveness of our financial reporting, internal controls and improving the quality of our Audit Committee Report

The Audit Committee (the Committee) plays a key oversight role for the Board and this report is presented to demonstrate our approach to accountability and sets out the key issues that we have considered during the 2016 financial year and what we plan to focus on during the forthcoming year

MEMBERSHIP AND ATTENDANCE DURING THE YEAR

The Committee meets at least quarterly and currently comprises three independent Non-Executive Directors. The Members are set out below, together with their appointment dates and attendance at meetings

Name of Member	Date appointed to Committee	Date of resignation	A	B	% of possible meetings attended
Andrew Miller (Chairman)	26 Jun 2014		4	4	100%
John Leach	26 Jun 2014		4	4	100%
Andrew Blowers	13 Nov 2014		4	4	100%
Former Member					
Margaret Young¹	26 Jun 2014	25 Feb 2015	0	0	n/a

Notes

A = Number of meetings the Member attended

B = Maximum number of meetings the Member could have attended

1 Margaret Young was a Member of the Committee from Admission up to the date of her resignation from the Board. The Board reviewed the remaining composition of the Committee and agreed that as the requirements of the UK Corporate Governance Code and Committee Terms of Reference are met with three independent Non-Executive Director Members no further change should be made

The Members of this Committee also sit on the Risk Committee to facilitate efficient cross communication and ensure that all risk and audit issues are addressed effectively

As Chairman of the Committee, I invite the Executive Chairman and the Chief Financial Officer to attend meetings of the Audit Committee where appropriate and the Company Secretary attends as Committee Secretary. The Head of Internal Audit also attends regularly, except where performance of internal audit is discussed. Jonathan Roe, as Chair of the Audit, Risk and Compliance Committee of our regulated subsidiary also regularly attends to ensure consistency across the Group. Other senior executives may attend as required to provide information on matters being discussed which fall into their area of responsibility. The external auditors, Ernst & Young LLP, also attend each meeting, except where we discuss their independence, performance and reappointment.

Audit Committee Report

Audit Committee Roles and Responsibilities

The Committee meets regularly to fulfil the following core responsibilities

- › Monitor the integrity and effectiveness of our financial reporting
- › Review and recommend the statutory and interim results to the Board
- › Maintain oversight of financial and other regulatory requirements and make recommendations as to the impact on our financial statements
- › Review and approve the internal audit plan for the following financial year, ensuring it is aligned with our key strategic priorities
- › Regular updates are provided to the Board on how the Committee has discharged its responsibilities

Full terms of reference of the Audit Committee can be found at www.theaapl.com/investors/corporate-governance.aspx

Audit Committee activity during the 2016 financial year

The Committee undertook the following activities during the year

- › Reviewed Ernst & Young LLP's full financial year report and the 2016 financial year interim results and implemented the financial reporting recommendations
- › Approved the Group's internal audit plan and the development of an internal audit action map, ensuring a focus by internal audit on areas of key strategic priority
- › Invited senior executives and external specialists to present on specific business risk issues and mitigating factors, such as the IT transformation, IT security and cyber risk and updated the Board accordingly
- › Reviewed and recommended to the Board the statutory and interim results
- › Approved the Group's Treasury Policy and reviewed other key policies including whistle blowing, financial crime, anti-bribery and allowable gifts and ethics policies
- › Undertook a review of the risk management processes including consideration of the output of an internal audit report on the risk function
- › Reviewed the performance of the Committee, as part of the framework of the wider Board effectiveness review
- › Considered the financial results in the Draft Prospectus and Offering Memorandum for the refinancing announced in March 2015
- › Received and approved bondholder results
- › Considered the treatment of financial instruments
- › Reviewed the Governance framework that governs and directs the formal decisions for the operation of the business, the level of authority and accountability and the internal and external parameters within which expenditure and contracts may be committed on behalf of the Group
- › Reviewed working capital reports
- › Based on detailed analysis and review, the Committee concluded that it was appropriate to prepare the report and accounts on a Going Concern basis and prepare the Viability Statement set out on page 35
- › Reviewed debt levels and terms of borrowings
- › Reviewed the effectiveness of the Group's financial controls and internal control systems, including the financial, operational and compliance risk management systems

What is the Committee's action plan for the 2017 financial year

Looking ahead, the Committee will remain focused on the audit, assurance and risk process within the business, and maintain its oversight of financial and other regulatory requirements. The action plan for the 2017 financial year will focus on

- › Oversight relating to the delivery and outcomes of the IT and Business Transformation Programmes
- › Review and recommendation of statutory and interim results
- › Review of cashflow
- › Assurance plan, design and delivery, with particular focus on key strategic priorities
- › Oversight of data protection and management
- › Review of debt and financial instruments
- › Approval of internal audit plan and oversight of key policies and practices
- › Assess the effectiveness of the internal audit function and keep under review the adequacy of internal controls
- › Review and monitor the effectiveness, tenure and independence of the external auditor and provide advice to the Board as to their reappointment or removal
- › Undertake a thorough review of the Annual Report and Accounts to ensure that the narrative messages are consistent and accurately reflect the financial statements and that the information as a whole is fair, balanced and understandable

Significant Issues

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

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

The main areas of judgement that have been considered by the Committee to ensure that appropriate rigour has been applied are set out on page 56

Audit Committee Report continued

The issue and its significance	Work undertaken	Outcome and actions
Revenue recognition	The accounting policies for revenue recognition prepared by management have been presented to the Committee which has concluded that they remain consistent and appropriate. The Committee has reviewed management's assessment of the internal control framework over revenue. This assessment has highlighted some issues with the initial revenue recognition of Roadside Membership subscriptions by the Membership database as well as the additional controls that management has put in place to identify and correct for these issues. The Committee notes that the current IT transformation plans include the replacement of the Membership database which will improve the controls over revenue recognition in this area.	The Committee therefore agrees with management's assessment that the internal controls have remained consistent and effective during the year. The Committee will continue to monitor this area.
Cyber Security	Review of existing administrative and technical controls in place to manage the risks associated with cyber security. This was based upon activity conducted by the Information Security team and included testing undertaken by an independent trusted security partner. This highlighted a number of areas of focus where remediation actions were needed to address known issues and vulnerabilities.	Work has been undertaken to implement and strengthen controls in this area especially around access, licence management, use of PCs in work and databases. Oversight of this is now managed by the Risk Committee and in the coming year the Audit Committee plans to review data in more detail. In addition, an IT & Change Senior Internal Auditor joined the Internal Audit team in late 2015 to provide oversight.
Borrowings and financial instruments	The Group's borrowings are a significant liability on the Group's Consolidated statement of Financial position (Balance Sheet) (see page 90). The Group's accounting policy recognises borrowings at fair value less debt issue fees at initial recognition. The Group also has a number of financial instruments related to the borrowings including interest rate swaps and penalties for early repayment. The accounting and valuation of these instruments are governed by IAS 39 'Financial Instruments' and can be complex. The Group is required to state these instruments at fair value in the Balance Sheet. Interest and fuel rate swaps have been valued at fair value and where they qualify for hedge accounting under IAS 39, any changes in valuation are recognised in the statement of comprehensive income. All other changes in valuation, including those arising upon the repayment of the Senior Term Facility in March and April 2015 have been recognised in the income statement.	The Committee has reviewed the methodology used in these valuations and the accounting for borrowings and financial instruments and has concluded that the accounting treatment is appropriate.
Pensions accounting	The Group's defined benefit pension scheme is a significant net liability on the Group's Balance Sheet (see note 23) and the value of the scheme will fluctuate due to changes in the underlying assumptions. The main assumptions which drive these fluctuations are forecast corporate bond yield rates and the forecast inflation rate.	The Committee has considered both the process that management undertook to finalise the assumptions and how these assumptions benchmark against the market. The Committee has concluded that the assumptions are appropriate and the overall valuation of the net liability is appropriately balanced but will monitor this further in the light of the triennial valuation being carried out in the 2017 financial year.
Impairment of Goodwill	Management have prepared discounted cashflows based on the latest Board approved strategic plan. These discounted cashflows have been compared to the carrying value of goodwill. No indication of impairment of goodwill has been identified.	The Committee has considered the basis of preparation of the discounted cashflows and is satisfied that these reflect the latest strategic plan of the Group and that there is sufficient headroom compared to the carrying value of goodwill.
Share-based payments	The Group issued a number of share-based awards to employees during the year (see note 32). This is a technically demanding area where the Group relies on support from external advisors. The main assumptions which drive the valuation are the expected volatility of the share price and the forecast interest rate.	The Committee is satisfied that all relevant share-based awards have been correctly included in these financial statements and that the assumptions used are appropriate.

External Auditors

Effectiveness, tenure and independence of the external auditor

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

Ernst & Young LLP has been the Company's Auditor since the 31 January 2008 audit and the Committee considered audit rotation and tender during the year and determined not to change auditors during the first full year as a public company during a period of major transformation. The Company is not obliged to tender for audit services until 2024 (ten years from Admission) but the Company intends to consider tendering its audit work annually until this date.

The Company fully supports audit partner rotation and refreshment. Kathryn Barrow was appointed as Audit partner during the 2016 financial year taking over from John Headley. After careful and thorough review, spread across two Committee meetings, the Committee believes the independence and objectivity of the external auditor and the effectiveness of the audit process are safeguarded and remain strong.

Consequently, the Committee advised the Board and will subsequently recommend at the 2016 AGM that Ernst & Young LLP be reappointed as the Company's statutory auditor.

Audit fees

Details of fees paid to our Auditors are listed in note 29.

Non-audit fees

The Committee is very mindful of engaging the statutory auditor for non-audit services and potential issues of independence. The Group has a robust auditor engagement policy in place and the Committee seek to ensure that it is adhered to. As a result of the work required around the refinancing and the placing and open offer announced on 25 March 2015, non-audit fees for this financial year were high, as they had been in the previous year due to the IPO. Going forward, the Committee is committed to maintaining non-audit fees at a lower level.

Types of non-audit work are limited to areas of work where it is appropriate for the auditors to advise on the balance of costs and efficacy against the risks of auditors' independence being impaired such as project work like the refinancing and equity issues.

AA plc has complied throughout the 2016 financial year with the provisions of the Statutory Audit Services Order 2014 issued by the CMA.

Internal controls

The Committee has completed its review of the Group's systems of internal controls and their effectiveness for the 2016 financial year and has done so in accordance with the requirements of the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting document issued in September 2014 (FRC Guidance). It should be noted that the Group's risk management systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and they can only provide reasonable and not absolute assurance against material misstatement or loss.

The review included, among other things, consideration of

- › The Company's risk appetite (as described in the Risk Management section on page 30) and the outcome of a survey undertaken in respect of the risk culture within the organisation
- › The operation of the risk management and internal control system, including the output from an Internal Audit review of this area
- › The assessment of risks within the three-year business planning process
- › The principal risks facing the business, along with the changes to those risks during the year and the mitigating actions being taken in respect of them (see details in the Risk Management section on pages 32-35)
- › The outputs from the risk incident and near miss reporting process

In the Committee's opinion there were no significant failings noted from this review. The Group has adopted acceptable and appropriate accounting policies and made appropriate estimates and judgements as and where necessary. The Committee also believes that this Annual Report and Accounts provides the information necessary for shareholders to make an assessment as to the Group's performance, business model and on-going strategy.

The Committee also

- › ensures that there is an on-going process for identifying, evaluating and managing the principal risks faced by the Company and the Group,
- › confirm that the systems have been in place for the year under review and up to the date of approval of the annual report and accounts,
- › confirm that they are regularly reviewed by the Board, and
- › ensures that the internal control systems accord with the FRC Guidance.

Further details on our Risk Management can be found on pages 30-35 and in our Risk Committee Report on pages 62-63.

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

- › Documented financial governance framework
- › Comprehensive budgeting and reporting processes
- › Defined lines of accountability and delegation of authority
- › Review and approval of key accounting policies and estimates
- › Preparation of consolidated accounts
- › Investment appraisal process for evaluating major capital expenditure
- › Project governance and information security

Audit Committee Report continued

Fair, balanced and understandable

At the request of the Board, the Committee considered whether, in its opinion, the Annual Report and Accounts for the 2016 financial year is fair, balanced and understandable and whether it provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

As part of this process, the Committee discussed what information and level of debate and insight it would need in order to satisfy Members that financial information was fair, balanced and understandable.

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

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

Is the report fair?

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

Is the report balanced?

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

Is the report understandable?

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

Following its review, the Committee was of the opinion that this Annual Report and Accounts for the 2016 financial year is representative of the year, is consistent with its understanding of the business and results and presents a fair, balanced and understandable overview, providing the necessary information for shareholders to assess the Group's performance, business model and strategy.

IMAGE
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Andrew Miller
Chairman, Audit Committee

Effectiveness

Nomination Committee Report

IMAGE
REMOVED

“With a number of Board changes taking place during the year, the Committee’s focus has been to ensure that the composition of the Board remains effective and suitably balanced, with regard to independence, skills, knowledge and diversity. The Committee also seeks to ensure that there is a strong future talent pipeline to deliver the continued success of our Group.”

John Leach
Nomination Committee Chairman

The Nomination Committee (the Committee) supports the Board in reviewing its composition, evaluating its performance and assists with succession planning for the Board and Executive Committees. This report describes our work in more detail and sets out our action plan for the coming year.

MEMBERSHIP AND ATTENDANCE DURING THE YEAR

The Membership of the Committee, together with appointment dates and attendance at meetings, is set out below

Name of Member	Date appointed to Committee	Date of resignation	A	B	% of possible meetings attended
John Leach (Chairman from 13 Nov 2014)	26 Jun 2014		2	2	100%
Andrew Blowers	13 Nov 2014		2	2	100%
Simon Breakwell	13 Nov 2014		2	2	100%
Bob Mackenzie	26 Jun 2014		2	2	100%
Suzi Williams	01 Oct 2015		1	1	100%
Former Member					
Margaret Young¹	26 Jun 2014	25 Feb 2015	0	0	n/a

Notes

A = Number of meetings the Member attended

B = Maximum number of meetings the Member could have attended

¹ No meetings took place while Margaret was a Non Executive Director during the year

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

The Chief Financial Officer, Company Secretary and Chair of the Audit Committee, Andrew Miller, were invited to attend meetings during the year

Nomination Committee Report continued

Board Changes

Changes to the Board during the financial year 2016 are described in the Governance Introduction on page 45

When Margaret Young stepped down from the Board as Non-Executive Director on 25 February 2015, she consequently retired from her position on the Committee. The Committee immediately commenced a process to review the composition of the Board and its Committees and subsequently recommended that a replacement Non-Executive Director be appointed. After a thorough selection process, the Board were pleased to announce the appointment of Suzi Williams with effect from 1 October 2015. The recruitment process for this appointment is set out later in this report. Suzi was also appointed as a Member of the Nomination and Risk Committees and subsequently to the Remuneration Committee.

Nomination Committee responsibilities and activity during the year

In accordance with the powers delegated in the terms of reference, the Nomination Committee assisted with the following during the 2016 financial year:

- › Reviewed the balance of skill, experience, independence, diversity and knowledge on the Board
- › Undertook a selection process for a replacement NED
- › Oversaw the election and induction of Suzi Williams as a new NED
- › Completed the first Board evaluation
- › Reviewed succession planning for the Board, focusing on the requirement for a new CEO from 2017
- › Assessed future talent pipeline within the Group
- › Reviewed the training and development process for Directors
- › Reviewed the time commitments of the Non-Executive Directors
- › A performance appraisal of the Chairman conducted by the SID and NEDs
- › Reviewed the skills and independence of each of the independent Non-Executive Director and subsequent recommendation that each of them be elected or re-elected at the Company's AGM to be held on 9 June 2016
- › Updated the terms of reference of the Committee

The full terms of reference of the Nomination Committee can be found at www.theaapl.com/investors/corporate-governance.aspx

Board Evaluation

The Board recognises the need to maintain its ongoing development to ensure its continued effectiveness and to continue to respond to evolving best practice. This involves a continuous process of:

- › Reflecting on past performance and implementation of previous recommendations or actions
- › Consideration of future training, skill and diversity requirements
- › Identification and implementation of new recommendations or actions to improve performance

The Board recognises that the process of improving its effectiveness requires continuous attention, particularly in respect of actions such as ensuring the correct Board balance, succession planning and Board focus.

The Board undertook a rigorous and formal internal evaluation of its own performance and that of its committees and Directors during the year. The Board believes that an external evaluation every three years will bring new insight into its processes and performance.

The internal Board evaluation included detailed questionnaires and interviews by the Senior Independent Director and the Company Secretary followed by a feedback session and Board discussion of the results.

The Board evaluation focused on the following areas of its role and performance:

- › Accountability, governance and culture
- › Composition of the Board and its committees and their balance and diversity of skills, experience, independence and knowledge, including consideration of gender diversity
- › How the Board and its committees work as individual units as well as their interaction with each other and with management
- › The performance of individual directors
- › Other factors relevant to the Board's effectiveness such as management of meetings and the quality of information provided by management

The Committee received a written report from John Leach, Senior Independent Director and Mark Millar, Company Secretary which was debated and discussed in detail and then the same process was repeated with the full Board. A clear action plan for the year ahead was then developed and approved.

The actions identified focus on diversity of the Board and communication with the Board in particular, to provide more timely and detailed management data and updates on the transformation process. As a newly assembled Board, it was encouraging to gain unanimous consent from the Members that the balance of skills and experience was appropriate and that a culture of open and frank discussion had been established from the outset. Also all Members were in agreement that the relationship between the SID and Chairman was appropriate and positive. It was noted that more scheduled time at meetings would be useful to enable the progression of all ideas and this has been recognised in the meeting schedule for the coming year.

The key findings of the 2015 performance review are being implemented in the current financial year and progress will be considered as part of the next performance evaluation and reported in next year's Annual Report.

Appraisal of the Executive Chairman

The Senior Independent Director met with the Independent Non-Executive Directors and separately with senior management to discuss and evaluate the performance of the Executive Chairman. The results of that process were discussed by the Committee and with the Executive Chairman. Following this rigorous process, the Committee and the Board are satisfied that the Executive Chairman is fulfilling his duties satisfactorily and should continue in the combined role pending completion of the transformation.

Board recruitment process

The recruitment processes undertaken for the appointment of Suzi Williams was formal, rigorous and transparent and Bob Mackenzie led a sub-committee during this time. At the start of the search process, the Committee evaluated the composition of the Board with regard to the skills, knowledge and diversity required to deliver the Group's strategy and subsequently created a tailored job specification. The following key attributes were identified:

- › Expertise and capabilities developed in sales and marketing
- › A broad understanding of UK Corporate governance arrangements
- › The time commitment and view to serve the role over the medium to long term
- › The Committee appointed Korn Ferry and Lygon Group to help with the selection process. Whilst the process was an open one, there was a strong preference for a female candidate given the all-male board following the departure of Margaret Young.

The Committee considered the candidates against the objective criteria set out in the profile and created a shortlist of preferred candidates. A sub-committee was appointed to facilitate meetings with the shortlisted candidates. Subsequently, the preferred candidate recommendations were made by the Committee to the Board for consideration. The Board was unanimous in their decision to approve the appointment of Suzi Williams as a Non-Executive Director.

Advisors

Korn Ferry and Lygon Group have been appointed by the Committee to help with Board recruitment. These advisors do not provide any other services to the AA.

Executive Committee Changes

The Committee were also involved in the restructuring of the Executive Management teams during the year to ensure a business focused decision making forum supporting the Executive Directors in their duties. The biographies of this team are set out on pages 46-49.

Succession planning for a CEO after 2017

As previously stated it is the Board's intention that Bob Mackenzie continue in the combined role of Executive Chairman during the major parts of the business transformation. It is expected that after 2017 the roles will be split and a new Chief Executive will be appointed to work alongside Bob Mackenzie as Chairman. The Committee intends to start the process of considering job requirements, skills and experience during the year to ensure a smooth and timely recruitment process and handover.

Diversity

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

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

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 have regular discussions with all disabled employees to consider changes we can make to ensure their ongoing career development.

The Board and this Committee recognise and value the importance of diversity including gender and acknowledge the recommendations in the Davies Report and, where possible, seek to ensure an appropriate balance. Ratios of staff and management are published on page 49.

We are aware that with regard to the wider composition of the Board in terms of diversity, skill and experience, there is some work to be done. We are committed to meeting Lord Davies' extended target for Women on Boards of 33% female membership by 2020.

The Committee's plan for the 2017 financial year includes:

- › Implementing actions from Board performance evaluation (and planning for the next)
- › Planning for external Board evaluation in 2018
- › Develop diversity action plan – to meet the Davies target of 33% women on the Board by 2020
- › Continue succession planning for the Board and key roles across the business
- › Begin selection process for a CEO to be appointed after 2017
- › Develop/deliver training and induction programme for Board and senior management
- › Consider the skills, availability and performance of each Board Member and reflect those results in recommendations on the election and re-election of Directors at the AGM

IMAGE
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John Leach
Nomination Committee Chairman

Accountability

Risk Committee Report

IMAGE
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“The AA is committed to effective risk management as part of the governance and processes we have in place to ensure achievement of our strategic objectives, fair customer outcomes and the long-term sustainable growth of our business”

Andrew Blowers

Chairman of the Risk Committee

The Risk Committee (the Committee) plays a key oversight role for the Board and this report is presented to demonstrate our approach to risk control and accountability. It sets out the activities and initiatives that we have undertaken during the financial year ended 31 January 2016 and our plans for the forthcoming year.

Membership and attendance during the year

The Committee meets at least quarterly and comprises four independent Non-Executive Directors. The current Members are set out below, together with their appointment dates and attendance at meetings.

MEMBERSHIP AND ATTENDANCE DURING THE YEAR

Name of Member	Date appointed to Committee	Date of resignation	A	B	% of possible meetings attended
Andrew Blowers (Chairman)	13 Nov 2014		4	4	100%
John Leach	13 Nov 2014		4	4	100%
Andrew Miller	25 Feb 2015		4	4	100%
Suzi Williams	1 Oct 2015		1	1	100%
Former Member					
Margaret Young	13 Nov 2014	25 Feb 2015	0	0	n/a
Notes					
A = Number of meetings the Member attended					
B = Maximum number of meetings the Member could have attended					

Supporting the Committee is an Executive Risk and Compliance Committee (ERCC) which meets ten times a year. This is an executive body, made up of senior executives and functional experts. Its role is to implement the Risk Management Framework and report to the Committee on the effectiveness of the management of risk, new and evolving risks and the effectiveness of the risk management culture and processes. There is also an audit risk and compliance committee (ARCC) for the regulated subsidiary, Automobile Association Insurance Services Limited, which also reports to the Committee in respect of its work.

The Committee works closely with ERCC, ARCC, the Compliance Officer and Group Risk Manager and invites executive members of the Group to attend or present as appropriate.

Risk Committee Roles and Responsibilities

Overall responsibility for overseeing the management of risks, compliance with our Risk Management Framework and the agreed risk appetite of the Group lies with the Board. These responsibilities are delegated to the Executive Directors of the Board for the day to day management of risks and the process is monitored by the Committee (working alongside the Audit Committee) which reports to the Board.

The Committee is concerned with the business of the entire Group and its authority extends to all relevant matters relating to the Company and its business units and subsidiaries. The Committee advises the Board on the Group's overall risk appetite, tolerance and strategy, and oversees and advises the Board on the current risk exposures of the Group and future risk strategy.

Full terms of reference of the Committee can be found at www.theaapl.com/investors/corporate-governance.aspx

Risk Management Framework

For risk management to work effectively in the AA the following is required

- › An effective risk culture in place with risk management embedded in the business
- › The timely identification, reporting and management of the principal risks
- › 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 of management 'snap checks' (risk control tests) to confirm the adequate 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)
- › Engagement from all employees to effectively manage risk and operate the organisation's control framework

The effective operation of the above is monitored by the Committee

Group Risk appetite

It is the responsibility of the Board to set and agree the Group risk appetite and this is regularly reviewed. The appetite takes into account the level of risk and risk combinations that the Board are prepared to take to achieve the Company's strategic objectives together with the level of risk shock that the Company is able to withstand. The duties of the Committee include advising the Board on the Group's overall risk appetite, tolerance and strategy. The AA Risk Appetite Framework policy outlines the amount of risk the organisation is willing to take.

Principal risks and uncertainties

The Board have identified, and monitor on an on-going basis, the principal risks to the AA, including those risks that would threaten its business model, future performance, solvency or liquidity. Set out on pages 32-35 are the risks the Board considers to be of most significance to the Group in terms of preventing or restricting execution of our strategy, with the mitigating activities that we have put in place to try to prevent such risk materialising. We recognise that other risks are still present and seek to ensure that they are managed accordingly.

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

Risk Committee activity during the 2016 financial year

The Committee receives regular reports on Risk Management which include

- › The status of the principal risks and the top risks identified by executive management including horizon and emerging risks
- › Material incidents and near misses
- › Control effectiveness details
- › Progress in completing actions to rectify control shortcomings
- › The Group Risk Appetite Dashboard

› KRI exceptions

› Risk Management Process KPIs

During the year, in addition to the standard reports from the Group Risk Manager and the Compliance Officer, the Committee has received presentations from various areas of the business to enable us to review and consider specific risks. Subjects covered have included

- › Information/Cyber Security
- › Business Transformation
- › Business Continuity
- › Health & Safety and in particular near miss reporting
- › Enhancement of the Risk Management Framework
- › An overview of AA Ireland, including the governance model for risks, compliance and controls
- › Updates from the Chairman of the ARCC

Initiatives during the 2016 financial year

In our annual report for the 2015 financial year I noted that we were pursuing a plan of improvements for Risk Management taking into account the FRC September 2014 Guidance. I am pleased to report that good progress towards enhancing the risk management process has been made as detailed below.

- › Amending risk reporting to enable the Committee to monitor risk appetite status better, the effectiveness of the Risk Management framework and the status of principal risks
- › Refreshing the Corporate Governance Framework to improve the process of internal control
- › Issuing new guidance on the identification, reporting and management of emerging and horizon risks
- › Implementation of a control framework assurance map
- › Improved Health & Safety near miss reporting
- › Reviewing, monitoring and refreshing our Key Risk Indicators

Initiatives for the 2017 financial year

Making further progress in embedding a sustainable risk management culture into the AA and further focus on the mitigation and management of the principal risks.

IMAGE
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Andrew Blowers
Chairman of the Risk Committee

Remuneration

Directors' Remuneration Report

IMAGE
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"I am pleased to report that during the year the Committee operated within the terms of the binding remuneration policy which was approved by shareholders at the 2015 AGM and that no changes are proposed for the coming year."

Simon Breakwell
Chairman of the Remuneration Committee

Dear shareholder,

On behalf of the Board, I am pleased to present our Directors' Remuneration Report for the year ended 31 January 2016

Last year the Remuneration Committee (the Committee) spent considerable time developing a remuneration policy which would support the Company following our listing in 2014. The policy was designed to reflect the unique nature of the AA and our transformation objectives, as well as being mindful of conventional FTSE 250 market and best practices

During the year the Committee operated within the terms of the binding Remuneration Policy which was approved by our shareholders at the 2015 AGM. This policy continues to support the business and therefore no changes to the policy are proposed for the coming year

Remuneration in respect of the 2016 financial year

On listing the Company set out very clear five-year transformation and growth aspirations. The Board and senior executive team remain committed to these long-term goals and our strategic objectives are built around the transformation. As noted elsewhere in the Annual Report, we are continuing to make good progress in executing our strategy to strengthen the AA as the UK's pre-eminent Membership services organisation

In the 2016 financial year, the Company became a constituent of the FTSE 250 and we also announced a progressive dividend policy, a first dividend payment was made to shareholders in October 2015. These were key milestones in our journey as a listed company. During the year we also announced a major refinancing of our debt structure, which has reduced the ongoing annual cash interest costs payable by the Company by £45m per annum

From a strategic perspective, a very good start has been made in turning around the core Roadside Assistance business and slowing the rate of decline in personal Members. As part of our transformation, the investment in new IT systems is on track, which will support improvement in customer experience and efficiency gains. Other developments include winning the Lex Autoleasing contract for roadside assistance, making strategic steps in connected car technology and launching an Insurance Underwriter. The year-end Trading EBITDA of £415m, represents a strong result in light of the transformational activity during the year

The bonus outcome for the 2016 financial year was determined based on targets set at the start of the financial year. The EBITDA performance and progress against the strategic and individual objectives set resulted in bonus outcomes of 79% and 72% of maximum for the Executive Chairman and the Chief Financial Officer respectively

Although the Company has implemented a Performance Share Plan (PSP), no awards have yet been granted under this plan. In addition, the interests held by participants in the legacy Management Value Participation Shares implemented at the time of Admission were allotted as set out in last year's Committee report but only crystallise between 2017 and 2019. This includes 45.8% granted to the Executive Directors in December 2015, as set out on page 70. Therefore no payments were made to Executive Directors in respect of long term incentives during the 2016 financial year

Remuneration in respect of the 2017 financial year

The remuneration structure for the coming year will remain broadly unchanged. Salary levels for the Executive Directors will not be increased. The salary for the Executive Chairman has remained unchanged since the IPO in 2014. The maximum bonus opportunity will also remain unchanged, however the metrics for the 2016 financial year will be modified in order to place greater emphasis on EBITDA performance. The Committee does not intend to make PSP grants to Executive Directors in the coming year.

Bob Mackenzie and Martin Clarke have personally chosen to build and retain very significant shareholdings in the Company. These interests demonstrate their commitment to the strategy and provide alignment with shareholders. The Committee is supportive of directors having material interests in shares and the Committee is therefore formalising appropriate share ownership guidelines. Further details of the intended approach are set out in the Annual Report on Remuneration.

As part of the commitment to encouraging greater share ownership in the wider organisation, the Company will also be seeking shareholder approval for a tax-approved Profit Share Plan targeted at our colleagues in Ireland. This plan will complement the existing HMRC-approved all-employee arrangements which are used for UK-based employees.

AGM

The Committee has spent time during the year ensuring that the remuneration arrangements remain appropriate, complement the transformational strategy and are aligned with shareholders' interests. Prior to last year's AGM we consulted with our major shareholders to ensure they fully understood the basis of the Committee's decisions and we would welcome further dialogue.

At the forthcoming AGM, shareholders will be provided with a vote on this Directors' Remuneration Report and will also be asked to approve the terms of the Irish Profit Share Plan described above. I hope that you find the report clear and helpful and that you will support the remuneration related resolutions at the forthcoming Annual General Meeting, to be held on 9 June 2016.

IMAGE
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Simon Breakwell

Chairman of the Remuneration Committee

Directors' Remuneration Report continued

ANNUAL REPORT ON REMUNERATION

This section of the Directors' Remuneration Report sets out a summary of how we intend to implement the Policy in the forthcoming financial year, as well as details of how we implemented the Policy and the remuneration paid to Directors during the 2016 financial year. Where information has been audited, this has been stated. The Remuneration Committee Chairman's statement provides further context to the decisions made.

Implementation for the 2017 financial year

The following table summarises how remuneration arrangements will be operated for the 2017 financial year.

SALARY AND BENEFITS			
Following the year-end the Committee reviewed the base salaries for Executive Directors. It has been determined that no increases will be made to salary levels for the coming year.			
	2016 salary	2017 salary	Increase
Bob Mackenzie	£750,000	£750,000	NIL
Martin Clarke	£480,000	£480,000	NIL
Benefits and pension arrangements will be in line with last year.			
ANNUAL BONUS			
The maximum opportunity for the Executive Directors will remain unchanged at 120% of salary.			
For the coming year, the weighting on financial objectives has increased from 60% to 70% of the overall bonus. The performance targets in respect of the 2017 bonus will be based on:			
			Weighting
EBITDA targets			70%
Individual/strategic objectives			30%
The non-financial objectives are subject to a profit underpin. The precise performance targets for the coming year are considered to be commercially sensitive at present, but the Committee intends to provide expanded disclosure of targets on a retrospective basis.			
The 2017 bonus will again be subject to both malus and clawback provisions.			
PERFORMANCE SHARE PLAN (PSP)			
Although approval was obtained for the PSP at the 2015 AGM, the Committee does not intend to grant awards to the current Executive Directors under this plan in the coming year.			
MANAGEMENT VALUE PARTICIPATION SHARES (MVP shares)			
This legacy arrangement was implemented at Admission.			
The Committee does not intend to allocate further awards to Executive Directors during the 2017 financial year.			
NON-EXECUTIVE DIRECTORS			
The current fees payable to the Non-Executive Directors are shown in the following table:			
Role			Fee
Senior Independent Director			£170,000
Basic fee for other Non-Executive Directors			£80,000
Additional fee for chairing of Board Committee (other than Nomination Committee)			£15,000
Additional fee for chairing of Group Insurer Board			£15,000

Implementation in the 2016 financial year

Single total figure of remuneration (audited)

Executive Directors

The tables below set out the total remuneration for the Executive Directors for the year ended 31 January 2016

	Bob Mackenzie		Martin Clarke		Nick Hewitt (former director)	
	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000
Salary	750	448	480	239	234	239
Benefits	12	13	16	7	7	7
Retirement benefits	88	52	56	28	27	28
Annual bonus	707	600	414	320	-	109
Long-term incentives ²	-	-	-	-	-	-
Total	1,557	1,113	966	594	268	383

¹ Nick Hewitt ceased to be a director on 31 July 2015. Details of his departure terms are set out on page 68

² As at 31 January 2016 the only long-term incentive applicable to Executive Directors is the MVP shares. As the performance conditions are not tested until June 2017, the performance conditions are considered to not be substantially complete by year end and therefore no amount is shown

Additional notes to the table

Salary

The 2016 salary levels for Bob Mackenzie, Martin Clarke and Nick Hewitt were £750,000, £480,000 and £400,000 respectively. As disclosed in last year's Remuneration Report, the 2016 salary for Martin Clarke was adjusted to reflect the expansion in his role.

Benefits

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

Retirement benefits

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

Annual bonus

For the 2016 financial year, the maximum annual bonus opportunity for the Executive Directors was 120% of salary. Consistent with best practice this award was also subject to malus and clawback provisions.

The 2016 bonus was subject to EBITDA performance (60% of the overall bonus), strategic objectives linked to refinancing the Company's debt structure (15%) and individual objectives (25%). The bonus outcome was determined based on the targets set at the start of the financial year.

As set out in the Chairman's statement, the Company has made considerable progress towards delivery of strategic goals during the year. The table below summarises the performance achieved and the resulting payout under each element of the annual bonus.

Performance measure	Weighting	Performance achieved	Performance relative to the target	Resulting level of award (% of max opportunity)
Trading EBITDA	60%	£415m	Between threshold and maximum	42%
Strategic targets	15%	Successful refinancing of the PIK notes for the Group debt structure resulting in c £45m savings in annual interest costs	Achieved in full	15%
Individual objectives	25%	Progress against various targets set at the start of the year (with profit underpin achieved)	Between threshold and maximum	15% to 22%
Total	100%			72% to 79%

When reviewing performance against individual objectives the Committee considered outcomes against various targets that were set at the start of the year. In particular, the Committee noted the establishment of the financial services partnership, delivery against the long-term IT transformation plan and progress with developing the Indian and Intelermatics Europe joint ventures.

Directors' Remuneration Report continued

The Board considers that the 2016 financial year Trading EBITDA targets continue to be commercially sensitive at the year-end. However, the Committee remains committed to transparent disclosure of remuneration arrangements and therefore intends to disclose details of the EBITDA targets (including the threshold and maximum range) for the 2016 bonus in next year's report.

Long-term Incentives – vesting during the year

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

Legacy scheme: MVP shares

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

The arrangement takes the form of A shares, B shares and C shares. Each class represents one-third of the total number of shares under the plan. The value of the A, B and C shares is dependent on the total shareholder return (TSR) generated over the three to five year period following Admission.

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

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

Prior to Admission Bob Mackenzie, Martin Clarke and Nick Hewitt subscribed for 40% of the MVP shares. The remaining 60% of MVP shares were allocated in 2015 consistent with the proportions set out in last year's Remuneration Report. The table below provides details of the MVP share subscriptions and allocations made on and following Admission.

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

Name	Type of award	Percentage of MVP shares held	Face value of MVP shares on subscription (nominal value) ¹	Performance review dates
Bob Mackenzie	MVP shares (A, B and C shares)	On Admission – 22.4% In year allocation – 32.6% Total – 55%	On Admission – £13,440 Subsequent allocation – £19,560	June 2017 (A shares)
Martin Clarke		On Admission – 8.8% In year allocation – 13.2% Total – 22%	On Admission – £5,280 Subsequent allocation – £7,920	June 2018 (A and B shares)
Nick Hewitt (former director)		On Admission – 8.8% In year allocation – 0% Total – 8.8%	On Admission – £5,280	June 2019 (A, B and C shares)

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

² The subsequent allocations set out above were made on 22 December 2015.

Departure terms

As announced during the year, Nick Hewitt stood down from the Board as Group Development Director of AA plc on 31 July 2015. He remained an employee of the Company until 22 February 2016, after a period of project work and hand over had been completed. The financial arrangements associated with Nick Hewitt's departure are as follows:

- › After stepping down from the Board, Nick Hewitt continued to receive his salary and benefits as an employee in line with his existing contractual arrangements. Reflecting the changes in his role, the Remuneration Committee determined that Nick Hewitt would not be eligible for a cash bonus in respect of the 2016 financial year.
- › Nick Hewitt received a payment of £400,000 in respect of his annual basic salary in lieu of his notice period of 12 months, as determined in accordance with his service contract. In settlement of any statutory claims, Nick Hewitt also received a payment of £57,688, determined by reference to certain benefits and other expenses which he would have received during his notice period and other expenses, and a maximum sum of £37,000 plus VAT as a contribution towards the legal fees incurred by him in connection with the cessation of his employment.
- › Nick Hewitt's interest in the Company's MVP shares allocated prior to Admission has been treated in accordance with the Company's Articles of Association. The terms of these shares reflected Mr Hewitt's role as one of the original Management Buy-In (MBI) team. Under the Articles Nick Hewitt retained his original class A, B and C shares on leaving and the Committee therefore did not determine the treatment. These shares will remain subject to the provisions of the Articles of Association and are subject to the same performance criteria as other participants.
- › Nick Hewitt did not receive the further tranche of MVP shares allocated following Admission.
- › Nick Hewitt continues to be covered by the Company's D&O insurance and his Company indemnity in respect of third party liabilities continues in force according to its terms.

Other directorships

Bob Mackenzie was previously Chairman of Northgate Plc, a role which predated his appointment to the AA Board. His fees for this role were £160,000 per annum, which he retained. Bob Mackenzie stepped down from this position on 17 September 2015.

Single total figure of remuneration (audited)**Non-Executive Directors**

The table below sets out the total remuneration for Non-Executive Directors for the year ended 31 January 2016

Name (role)	2016			2015		
	Fees £000	Benefits £000	Total £000	Fees £000	Benefits £000	Total £000
John Leach SID/NED	170	–	170	100	–	100
Andrew Blowers NED	103	–	103	48	–	48
Simon Breakwell NED	95	–	95	50	–	50
Andrew Miller NED	94	–	94	68	–	68
Suzi Williams NED ¹	27	–	27	–	–	–
Former director						
Margaret Young NED ²	8	–	8	57	–	57

Andrew Blowers was appointed Chairman of the Group's new insurer during the year and is paid an additional fee of £15,000 per annum for that role

The fees shown for 2015 are those paid to the Directors from the date of Admission. In the seven months following Admission and leading to the premium listing, significant additional work was required by the chairs of the committees in relation to establishing the appropriate governance processes and committee activities. The Board (excluding Non-Executive Directors) therefore determined that it would be appropriate in the 2015 financial year for an additional fee of £20,000 to be paid to the chairs of each of the Audit, Risk and Remuneration Committees and this amount is included in the table. No additional fees were paid in respect of the 2016 financial year.

1 Suzi Williams was appointed with effect from 1 October 2015

2 Margaret Young left her role as a director on 25 February 2015

Statement of Directors' shareholding and share interests (audited)

The Committee is supportive of Executive Directors building up and maintaining a significant holding in the Company. As at the year-end, Bob Mackenzie and Martin Clarke have built up shareholdings in excess of 3.4x and 4.8x salary respectively (based on the closing share price on 29 January 2016 294.4p). The Committee views these holdings as a key means of aligning their interests with those of shareholders.

On the appointment of any new executive, the Committee would seek to implement a shareholding guideline which would need to be built up during the course of their tenure. The exact terms would be determined depending on the nature of any future appointment, however, it is currently expected that a requirement of at least 200% of salary would be implemented.

For new appointments to comply we would implement an appropriate time horizon for building to the shareholding, including a requirement that executives would retain a proportion of net vested shares until this guideline has been met.

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

	Share held outright	Held in SIP trust (a)	Deferred shares (b)	Shareholding (% of salary) (c)
Executive Directors				
Bob Mackenzie	875,000	705	689	344%
Martin Clarke	787,500	705	689	484%
Non-Executive Directors				
Andrew Blowers	9,160	–	–	n/a
Andrew Miller	–	–	–	n/a
Suzi Williams	–	–	–	n/a
John Leach	32,811	–	–	n/a
Simon Breakwell	–	–	–	n/a
Former Directors				
Margaret Young (d)	n/a			
Nick Hewitt (e)	n/a			

(a) includes partnership and dividend shares under the SIP. Bob Mackenzie and Martin Clarke have each received an additional interest in 113 shares held in the SIP Trust by 4 April 2016.

(b) includes unvested matching shares under the SIP. Bob Mackenzie and Martin Clarke have each received an additional interest in 113 Deferred shares.

(c) based on the closing share price on 29 January 2016 of 294.4p.

(d) when Nick Hewitt resigned as a director on 31 July 2015 he held 87,500 shares.

(e) when Margaret Young resigned as a director on 25 February 2015 she owned 20,000 shares.

Directors' Remuneration Report continued

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

Name	MVP shares		
	Subscribed prior to Admission	Subscribed in December 2015	Value subject to a performance condition
Total			
Executive Directors			
Bob Mackenzie	22.4%	32.6%	55.0%
Martin Clarke	8.8%	13.2%	22.0%
Nick Hewitt (former director)	8.8%	-	8.8%
Total	40.0%	45.8%	85.8%

The Non-Executive Directors do not have any interests in MVP shares. The remaining 14.2% of MVP shares has, as outlined in last year's Directors' Remuneration Report, been issued to the Company's Employee Benefit Trust for the benefit of senior management below Board level.

Service contracts and letters of appointment

Each of the Board Members will be proposed for re-election at the 2016 Annual General Meeting. The Executive Directors are employed under rolling service contracts that do not have fixed terms of appointment, but are subject to a 12-month notice period. The Non-Executive Directors are appointed under a letter of appointment for an initial term of three years (subject to annual re-election at the AGM) which may be terminated by either party subject to a one-month notice period other than certain conditions under which the Company can terminate with immediate effect. The details of the Non-Executive Directors' terms are set out below.

Name	Date of appointment	Term expires
John Leach	26 June 2014	9 June 2018
Andrew Miller	26 June 2014	9 June 2018
Simon Breakwell	17 September 2014	9 June 2018
Andrew Blowers	25 September 2014	9 June 2018
Suzi Williams	1 October 2015	1 October 2018

Performance graph and table

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

IMAGE REMOVED

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

Executive Chairman remuneration	2016	2015
Executive Chairman single figure of remuneration	£1,557k	£1,113k
Annual bonus payout (% of maximum)	79%	100%
Long-term incentives vesting (% of maximum)	n/a	n/a

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

The table below illustrates the percentage change in salary, benefits and annual bonus for the 2016 financial year for the Executive Chairman as against all other employees

	% change in base salary	% change in benefits	% change in annual bonus
Executive Chairman	0%	0%	17.8%
All employees ¹	2%	0%	-14%

¹ Change in base salary for employees represents the average increase implemented as part of the Company's annual pay review in April 2015. The change in annual bonus represents the average bonus paid to employees.

Relative importance of spend on pay

The table below illustrates the year-on-year change in the total remuneration costs for all employees against the Company's key performance metric of Trading EBITDA.

	2016 £m	2015 £m	% change
Total employee remuneration	328	310	5.8%
Trading EBITDA	415	430	-3.5%
Distributions	21	NIL	100%

Role of the Remuneration Committee

The Remuneration Committee is responsible for reviewing and making recommendations to the Board regarding the remuneration policy of the Group and for reviewing compliance with the policy. At the end of the 2016 financial year, the Remuneration Committee comprised the following Directors: Simon Breakwell (Chairman), Andrew Miller and Suzi Williams. Andrew Blowers stepped down from the Committee on 1 November 2015 when he took on responsibility for chairing the new insurer. The Executive Chairman and the HR Director attended parts of Committee meetings by invitation in order to provide the Committee with additional context. The Company Secretary acts as the Committee's secretary. No individual was present when their own remuneration was being determined.

Deloitte LLP are engaged by the Committee as their advisors. Deloitte LLP received fees of £65,500 for advice to the Committee on a time and materials basis. During the year, Deloitte LLP also provided the Company with HR consulting services and taxation advice. Deloitte LLP is one of the founding Members of the Remuneration Consultants' Group and adheres to the Remuneration Consultants' Group's Code of Conduct. The Committee is satisfied that the advice it has received has been objective and independent.

Membership and attendance during the year

Name of Member	Date appointed to Committee	Date resigned	A	B	% of possible meetings attended
Simon Breakwell	17 September 2014		6	6	100%
Andrew Miller	26 June 2014		6	6	100%
Andrew Blowers	3 November 2014	1 November 2015	3	3	100%
Suzi Williams ¹	1 November 2015		3	3	100%

A = Number of meetings the Member attended

B = Maximum number of meetings the Member could have attended

¹ Suzi Williams was appointed to the committee in October 2015.

Remuneration in the wider group

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

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

Directors' Remuneration Report continued

Consideration of shareholder views

Prior to Admission the remuneration arrangements for senior executives were discussed with prospective shareholders. The framework for the remuneration package was set out in the Prospectus. Further consultation with major shareholders was undertaken prior to the 2015 AGM.

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

DIRECTORS' REMUNERATION POLICY (EXTRACT) – PROVIDED FOR REFERENCE ONLY

The Directors' Remuneration Policy (the Policy) was approved by shareholders at the 2015 Annual General Meeting, and took effect upon approval. No changes are proposed for the 2017 financial year, therefore shareholders will not be asked to vote on the Policy at the AGM this year.

An extract of the policy has been provided below for ease of reference. For clarity, where the policy table included references to implementation of the policy in the 2016 financial year, these references have been updated. The full Policy can be found in the 2015 Annual Report on our website.

Policy table

BASE SALARY	
Purpose and link to strategy	To attract and retain executives of the calibre required to deliver the Group's strategy
Operation	When reviewing salary levels the Committee takes into account a range of factors including: <ul style="list-style-type: none"> › The individual's skills, experience and performance › The size and scope of the individual's responsibilities › Market rate for the role › Pay and conditions elsewhere in the Group Salary levels are typically reviewed annually by the Committee.
Maximum opportunity	There is no overall maximum for salary opportunity or increases. Individual salaries are set based on the factors set out above. The Executive Director salaries as at 1 February 2016 are: <ul style="list-style-type: none"> › Bob Mackenzie: £750,000 › Martin Clarke: £480,000
Performance metrics	None
BENEFITS	
Purpose and link to strategy	To provide competitive benefit arrangements appropriate for the role
Operation	A range of benefits may be provided to Executive Directors including, but not limited to, car related benefits, life cover and private medical insurance. From time to time the Committee may review the benefits provided for individual roles. Additional benefits may be provided where the Committee considers this appropriate (e.g. on relocation). Directors may also participate in any all-employee share plans (including the Company's Share Incentive Plan) operated by the Company from time to time on the same terms as other employees.
Maximum opportunity	There is no overall maximum for benefits. Participation in any HMRC approved all-employee share plan is limited to the maximum award levels permitted by the relevant legislation.
Performance metrics	None

RETIREMENT BENEFITS	
Purpose and link to strategy	To provide a competitive level of retirement benefits appropriate for the role
Operation	Executive Directors are eligible to participate in the AA UK pension scheme (or any other similar pension plan operated by the Group from time to time) or receive a cash allowance in lieu of participation For new hires the nature and value of any retirement benefit provided will be in the Committee's opinion reasonable in the context of market practice for comparable roles and take account of both the individual's circumstances and the cost to the Company
Maximum opportunity	The maximum benefit is 25% of salary For the financial year commencing 1 February 2016 the personal pension or cash allowances for current Directors will be 11.7% of salary
Performance metrics	None
ANNUAL BONUS	
Purpose and link to strategy	To incentivise the delivery of annual financial, strategic and operational objectives which are selected to support our business strategy
Operation	Performance metrics and targets are set annually to ensure they remain aligned with financial and strategic goals. Bonus levels are determined by the Committee after the year-end, based on an assessment of performance
Maximum opportunity	The maximum annual opportunity is 120% of salary
Performance metrics	Performance targets will be determined by the Committee at the beginning of each performance period, and may comprise of a combination of financial, strategic, operational and individual targets appropriate for the role At least 50% of the award will be subject to financial measures The threshold payout for the minimum level of performance will be determined by the Committee taking into account the nature of the target. There will normally be scaled payouts for performance between the minimum and maximum thresholds
Recovery provisions	Malus and clawback provisions have been introduced for the 2016 bonus. Both malus and clawback will apply to future awards
2015 PERFORMANCE SHARE PLAN	
Purpose and link to strategy	To reward for delivery of performance targets linked to long-term strategic objectives and to provide alignment with the interests of shareholders Over time, the Committee intends to transition to an incentive structure which is more conventional for the UK listed environment. The Performance Share Plan (PSP) is intended to provide the Committee with the facility to make annual long-term share awards subject to performance measures aligned to the success of the Company It is anticipated that the PSP will be used for new Executive Directors
Operation	The PSP was presented to shareholders for approval at the 2015 AGM. The Committee does not currently intend to make awards to the current Executive Directors under this plan during the 2017 financial year Awards of conditional shares (or equivalent) will vest dependent on performance measured over a period of at least three years The Committee will review the metrics, targets and weightings prior to grant to ensure they are aligned with the long-term strategic goals Dividends (or equivalents, including re-investment) may accrue in respect of any shares that vest
Maximum opportunity	The maximum face value of award in respect of any financial year is 200% of salary The level of payout for the threshold performance hurdle set would normally not exceed 25% of the maximum opportunity. Full vesting will require achievement of the stretch objectives set. There will normally be scaled vesting for performance between the threshold and maximum performance levels
Performance condition	As the PSP is not for immediate use, the performance conditions have not yet been determined Prior to granting awards, the Committee will determine the performance metrics, weightings and targets to ensure they are aligned with the corporate strategy The Committee would seek to engage appropriately with its major shareholders when making the first awards to Executive Directors under this plan
Recovery provisions	Both malus and clawback provisions will apply to any awards granted to Executive Directors under this plan

Directors' Remuneration Report continued

Legacy arrangement – MVP shares on Admission

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

MVP SHARES	
Purpose and link to strategy	To link reward with Company performance and long-term shareholder value creation following Admission. Awards are share based to facilitate share ownership and further align the interests of participants and shareholders.
Operation	<p>The MVP shares are a one-off structure implemented prior to Admission.</p> <p>The MVP shares provide participation in the total shareholder return created over the first five years following Admission provided a minimum hurdle rate is achieved.</p> <p>The arrangement takes the form of A shares, B shares and C shares in the Company with each class representing a third of the total number of MVP shares. Unless the Committee determines otherwise, each participant will hold an equal number of A, B and C shares.</p> <p>The A, B and C shares are convertible into ordinary shares in the Company or are redeemable following satisfaction of the relevant Performance Condition tested on the third, fourth and fifth anniversary of Admission respectively. If the Performance Condition is not met on the third or fourth anniversary (as relevant), but is satisfied on a subsequent measurement date (including the requirement for further growth in TSR for that additional period), the A and B shares will be convertible or redeemable as described above. Value per share is based on the aggregate value calculated by reference to the performance conditions divided by the aggregate number of shares allocated.</p> <p>In the event that the Performance Condition of any of the MVP shares has not been satisfied by the fifth anniversary of Admission, the Company will be able to acquire all of the MVP shares for £0.01 in aggregate. The same applies in the event that any holder has not required the Company to convert their MVP shares within the applicable timeframes.</p>
Maximum opportunity	<p>The maximum number of ordinary shares resulting from conversion of MVP shares will not in any 10 year period exceed 5% of the issued share capital (as calculated from time to time). Up to 60 million MVP shares may be allocated under this structure.</p> <p>The allocations of MVP shares to current Executive Directors is as follows:</p> <ul style="list-style-type: none"> › Bob Mackenzie 55% › Martin Clarke 22% <p>It is anticipated that no further grants of MVP shares will be made to Executive Directors.</p>
Performance Condition	<p>For all MVP shares, the Performance Condition is that the total shareholder return (TSR) per annum from Admission to the relevant measurement point is equal to or more than 12% (the Performance Condition).</p> <p>If the Performance Condition is met, the value of the MVP shares shall be:</p> <ul style="list-style-type: none"> › 5% of the TSR up to the Performance Condition, plus › 10% of the amount by which TSR exceeds the Performance Condition. <p>If the Performance Condition has been satisfied, the MVP shares may be converted into such number of ordinary shares at the average closing price of the share over the 10 business days prior to the relevant anniversary.</p>

Notes to the policy table

Further detailed provisions

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

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

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

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

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

Performance measures and targets

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

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

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

Approach to Non-Executive Director remuneration

Approach to setting remuneration	Fees are set at appropriate levels to ensure Non-Executive Directors are paid to reflect the individual responsibility taken. Fees are reviewed periodically.
	When setting fee levels, consideration is given to a number of internal and external factors including responsibilities and market positioning.
	Benefits appropriate to the role may be provided. Travel and other reasonable expenses (including fees incurred in obtaining professional advice in the furtherance of their duties and any associated taxes) incurred in the course of performing their duties may be paid by the Company or reimbursed to Non-Executive Directors.
	The total fees paid to Non-Executive Directors will remain within the limit stated in the Articles of Association.
Opportunity	Individual fees reflect responsibility and time commitment. Additional fees may be paid for further responsibilities, such as chairmanship of committees, duties related to subsidiary boards, or other periods of increased activity.

Recruitment policy

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

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

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

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

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

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

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

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

Directors' Remuneration Report continued

Service contracts and payments for loss of office

Notice period	The notice period for the current Executive Directors is 12 months. Service contracts for new Executive Directors will normally be limited to 12 months' notice. In limited circumstances the initial notice period for a new appointment may be longer than the Company's normal policy (up to a maximum of 18 months), with the notice period reducing down to 12 months over time.
Payments on cessation	The Company may terminate an Executive Director's service agreement at any time by making a payment in lieu of notice in respect of basic salary for the outstanding period of notice, together with accrued holiday entitlement. Benefits (or a payment in lieu) may also be provided. This may include certain benefits in connection with termination, such as legal costs and the costs of meeting any settlement agreement.

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

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

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

Relations with shareholders

Approach to Investor Relations

The Board acknowledges that it is managing the AA on the behalf of shareholders and, in undertaking this responsibility, seeks to increase long-term shareholder value and to advance the interests of all the AA's stakeholders. It recognises the importance of its relationships with shareholders and is committed to maintaining an open dialogue with them and the financial community.

We engage with analysts, shareholders and potential investors to ensure we have a strong relationship which allows us to understand their views on material issues relating to the business. An integral part of this open dialogue is communication about our strategy and its delivery.

The AA has a comprehensive Investor Relations (IR) programme which aims to help existing and potential institutional, private and debt investors understand what we do, our strategy and our achievements.

The Board receives independent feedback on our relationships with investors from our brokers. These are included in regular board reports on IR. All analysts' notes are circulated to the Board to help it maintain an understanding of markets' perceptions of the Company and financial forecasts.

Relevant information made available to investors

Financial reporting

The AA reports financial results twice a year at the half year and year-end. Following the announcement to the London Stock Exchange, presentations are held to explain the results. These were simultaneously webcast and posted on the IR website to enable viewing by those who cannot attend.

Ad-hoc announcements

Ad-hoc announcements of information which is material are announced and made available on our IR website to ensure all investors are able to access it.

Annual Report

The Annual Report is published in line with requirements, to provide sufficient time in advance of the AGM for feedback to be shared with the relevant Directors.

Notice of AGM

Any major business is preconsulted with significant shareholders and for investor bodies and the Notice is posted well in advance of the AGM.

Website

An IR website is maintained to facilitate communications with investors and we post material given to fund managers and analysts at IR presentations.

Meetings with investors enabled through the IR programme

Institutional shareholders

Meetings with principal shareholders

Meetings with the Executive Chairman and Chief Financial Officer are built around the financial results.

Additional meetings are held on an ad-hoc basis throughout the year with the Executive Directors and the IR team. Feedback is given to the Board. Our investor relations programme covers the UK, Continental Europe, North America and the Far East.

Investor conference

An investor conference was held in London on 20 April 2015 to introduce investors to the AA and outline the new management's strategy following the IPO. This was preceded by a display of 14 AA service vehicles guided by AA patrols and the conference provided an opportunity for attendees to meet senior management. The presentations and recordings were made available on our corporate website to provide the content to those investors who could not attend.

Investor site visits

We hold investor trips to Oldbury, the site of our roadside assistance dispatch centre, for major shareholders. Feedback from these visits forms part of the regular Board reports on Investor Relations.

Industry conferences

Industry conferences give senior management a chance to meet a large number of investors in an efficient way. Conferences attended this year included JP Morgan Business Services Conference and Goldman Sachs Business Services Conference.

Private shareholders

During the year the investor relations department held two private shareholder roadshows focusing on Private Client Brokers. Feedback was given to the Board.

Individual shareholders are encouraged to communicate with the Directors through the Company Secretary: mark.millar@theAA.com

Debt investors

Meetings with credit institutional investors and analysts were held with senior management and our investor relations department throughout the year. In addition, regular dialogue was maintained with our key relationship Banks and Trustee.

During the year, updates and meetings were held in respect of our bonds by our senior management team with Standard & Poor's credit rating agency.

Annual General Meeting (AGM)

Investors' views in relation to governance and remuneration are sought ahead of the AGM and summarised to the Board.

The 2015 AGM provided all shareholders with an opportunity to question the Board and the Chairmen of the Board Committees on matters put to the meeting, including the Annual Report. Proxy votes of shareholders for the AGM are tabulated independently by the Company's registrar, announced at the meeting and published on the Group's website shortly after the conclusion of the AGM.

Meetings with the Senior Independent and other Non-Executive Directors

The Senior Independent Director and Non-Executive Directors are available to meet shareholders through the Company Secretary. During the year a meeting was held with our Senior Independent Director, Chair of the Audit Committee and Company Secretary to which our top 10 shareholders' governance officers were invited. In addition the Chair of the Remuneration Committee and the Company Secretary met with major shareholders to discuss remuneration related topics.

In addition to the programme undertaken by us, the Senior Independent Director and/or Company Secretary are available to shareholders if they have concerns which contact through the normal channels has failed to resolve or for which such contact would be inappropriate.

Accountability

Directors' Report


IMAGE
REMOVED

Mark Millar
Company Secretary

Directors' Report

The Directors present their report together with the audited accounts for the year ended 31 January 2016

This Directors' report contains certain statutory, regulatory and other information. As permitted by the Companies Act 2006 (the Act), the following information which is required by law to be included in the Directors' report is incorporated by reference

- › Strategic report (pages 2-42)
- › Corporate Governance Report (pages 44-81)
- › Employee involvement and engagement (page 39)
- › Information about our people (pages 38-39)
- › Training and career development of disabled employees (pages 38 to 39)
- › Carbon Emissions (pages 41-42)
- › Financial Instruments (note 25)
- › Details of the Group's overseas operations in Ireland (page 29)
- › Related party transactions (note 30)
- › Events after the Balance Sheet date (note 35)
- › Share schemes (note 32)
- › Likely future developments (page 11)

Company Status

AA plc (the Company) is a public limited liability company with company number 5149111 and the holding company of the AA Group of companies (the AA). It holds a premium listing on the London Stock Exchange main market for listed securities and is a constituent Member of the FTSE 250 Index

Results and Dividends

The results for the year ended 31 January 2016 are set out on pages 87 to 131. The Company paid an interim dividend of 3.5p per ordinary share on 23 October 2015. The Board has proposed a final dividend of 5.5p per ordinary share in respect of the year (2015-0p) which, subject to approval by shareholders at the forthcoming AGM, will be payable on 13 June 2016 to shareholders on the register at the close of business on 13 May 2016, giving a total dividend in respect of the year of 9p per ordinary share. The ex dividend date will be 12 May 2016.

Share Capital

The Company's issued share capital, as at 31 January 2016, comprised a single share class of ordinary shares which are listed on the London Stock Exchange and six classes of Management Value Participation Shares (MVP shares). Details of the movements in the issued share capital can be found in note 21 of the financial statements. Each ordinary share carries the right to one vote at general meetings of the Company.

The issued and fully paid share capital of the Company as at 31 January 2016 is as follows

Class	Nominal value	Number	Amount (£)
Ordinary	£0.001	608,181,845	608,182
MVPS (A1 shares)	£0.001	8,000,000	8,000
MVPS (B1 shares)	£0.001	8,000,000	8,000
MVPS (C1 shares)	£0.001	8,000,000	8,000
MVPS (A2 shares)	£0.001	12,000,000	12,000
MVPS (B2 shares)	£0.001	12,000,000	12,000
MVPS (C2 shares)	£0.001	12,000,000	12,000

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

The MVP shares are not listed on any public market and have no voting rights but entitle the holders to receive ordinary shares or cash in the future subject to satisfaction of performance conditions which require a minimum 12% compound total Shareholder Return performance condition over a three to five year period from admission of the shares in June 2014. Further details of the MVP shares are set out on pages 68 and 74 to 75.

Purchase of own shares

No ordinary shares were purchased by the Company during the 2016 financial year or to the date of this Annual Report and Accounts. The existing authority granted to the Directors to allot shares for cash pursuant to section 570 and 573 of the 2006 Act expires at the end of the AGM to be held in June 2016. Therefore, the Company will re-seek authority by shareholders to purchase up to 10% of the Company's ordinary share capital as at 4 April 2016.

Shares held by employee benefit trusts

For the second year the AA issued an invitation to eligible UK employees to participate in the tax approved Share Incentive Plan (SIP) in August 2015. The SIP allows qualifying employees to acquire shares on beneficial terms in accordance with Schedule 2 and/or Schedule 3 to the Income Tax (Earnings and Pensions) Act 2003. The first year's SIP invitation matured in August 2015 and matching shares were awarded in accordance with the rules of the SIP.

During the 2016 financial year the Group has implemented an Approved Profit Share Plan (APSS) which enables employees of the Irish subsidiaries to acquire in the market ordinary shares in the Company by making regular contributions to the APSS directly from their salary (Contributory Shares). The Company matches these Contributory Shares on a 1:1 basis. At the moment, the APSS permits only the market purchase of matching Ordinary Shares (Matching Shares). The issue by the Company of new Matching Shares or the transfer of treasury shares into Matching Shares would be permitted under the scheme but is conditional upon shareholder approval of the APSS. It is proposed that shareholder approval is sought at the AGM on 9 June 2016 for the APSS and to permit the Company to satisfy Matching Shares under the APSS over newly issued shares and treasury shares. The APSS is an all employee share plan comparable to the UK Share Incentive Plan currently operated by the Company. The APSS is governed by Irish law and has been approved by the Irish Tax and Customs Revenue and includes features consistent with prevailing market practices. The APSS has been implemented as an added incentive to encourage employee share ownership and to increase employee interest in the success of the Company.

During the 2016 financial year the Company's employee benefit trust (EBT) purchased ordinary shares in the market at a cost of £15m which have been used in a long term bonus plan (LTBP) to incentivise senior management below Board level and to align their interests with shareholders.

Further details of the Company's share schemes and share based payments are set out in note 32. Each ordinary share purchased and/or awarded under each plan carries the right to one vote at general meetings of the Company.

Substantial shareholdings

As at 31 January 2016, the Company has been notified in accordance with the Disclosure and Transparency Rules (DTR 5) of the following interests in 3% or more of the issued share capital of the Company.

Name of shareholder	Number of shares	% shareholding
The Capital Group Companies, Inc	97,957,072	16.11%
Invesco Limited	82,153,669	13.51%
Lansdowne Partners International Limited	54,960,000	9.04%
BlackRock Inc	45,027,451	7.40%
Woodford Investment Management	43,246,883	7.11%
Aviva plc	33,256,705	5.47%
Standard Life Investments (Holdings) Limited	31,026,784	5.10%
GLG Partners LP	26,060,869	4.29%
Henderson Global Investors	below 5%	<5%

Since 31 January 2016 the Company has been notified in accordance with DTR5 of changes in the following interests:

Name of shareholder	Number of shares	% shareholding
Woodford Investment Management Limited	60,910,713	10.00%
Aviva plc	33,415,374	5.49%

Interest in Voting Rights

All of the issued (and outstanding) ordinary shares of the Company have equal voting rights, with one vote per share. None of the ordinary shares carry any special voting rights with regard to control of the Company. The Group is not aware of any agreements between holders of securities that may result in restrictions on the transfer of ordinary shares.

The Notice of Annual General Meeting (AGM) specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the AGM. The relevant proxy votes are counted and the number for, against or withheld in relation to each resolution are announced at the AGM and published on the Company's website after the meeting.

Full voting rights are set out in the Company's Articles of Association (the Articles) and in the explanatory notes that accompany the Notice of the 2016 AGM. These documents are available on the Company's website www.theaapl.com.

The total voting rights figure applicable at 4 April 2016 is 608,448,650 ordinary shares.

Except for the above, we are not aware of any ordinary shareholders with interests of 3% or more in the issued share capital of the Company. We have not been notified of any other changes to the notifiable voting rights in its shares up to 4 April 2016.

Directors' Report continued

Dividend Reinvestment Plan (DRIP)

The Company offers a dividend reinvestment plan to shareholders as a cost-efficient way of increasing their shareholding in the Company

Directors and changes to the Board

The Membership of the current Board and biographical details are given on pages 46-47. During the year Nick Hewitt stepped down from the Board as an Executive Director on 31 July 2015, Margaret Young resigned as a Non-Executive Director on 25 February 2015 and Suzi Williams joined the Board on 1 October 2015.

Appointment and removal of Directors

The appointment and replacement of Directors is governed by the Articles, the Act, the UK Corporate Governance Code (the Code) and related legislation.

Directors' powers

The business of the Company is managed by the Board who may exercise all powers of the Company, subject to the Articles, the Act and any directions given by special resolution of shareholders.

Directors' interests

The interests of Directors and their immediate families in the shares of the Company, along with details of the long-term incentives awarded to Executive Directors are contained in the Remuneration report set out on pages 64-76.

No directors have beneficial interests in the shares of any subsidiary company. Further details relating to the MVP shares can be found on pages 74-75.

Directors' indemnities

The Company maintains directors' and officers' liability insurance, which gives appropriate cover for any legal action brought against its directors and officers. The Company has also granted indemnities to each of its directors and the Company Secretary to the extent permitted by Law. Qualifying third party indemnity provisions (as defined by section 234 of the Act) were in force during the year ended 31 January 2016 and remain in force, in relation to certain losses and liabilities which the directors or Company Secretary may incur to third parties in the course of acting as directors or Company Secretary or employees of the Company or any associated company.

Directors' conflicts of interest

The AA has procedures in place for managing conflicts of interest. Should a director become aware that they, or their connected parties, have an interest in an existing or proposed transaction with the AA, they should notify the Board in writing or at the next Board meeting. Internal controls are in place to ensure that any related party transactions involving directors, or their connected parties, are conducted on an arm's length basis. Directors have a continuing duty to update any changes to these conflicts.

Significant agreements – change of control

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

Going concern and viability statement

Having carried out a comprehensive review of the business, regarding its financial position, future forecasts and the borrowing facilities available, the Directors confirm that they have a reasonable expectation that the AA has adequate resources to continue in operational existence for the foreseeable future. Therefore, the Directors continue to adopt the going concern basis in preparing the financial statements for the year ended 31 January 2016.

Our viability statement is located on page 35.

Cautionary statement

This Annual Report contains forward-looking statements. These forward-looking statements are not guarantees of future performance, rather they are based on current views and assumptions as at the date of this Annual Report. We made these assumptions in good faith based on the information available to us at the time of the approval of this report. These statements should be treated with caution due to the inherent risks and uncertainties underlying any such forward-looking information. We have no obligation to update these forward looking statements.

Employment

The AA is an equal opportunities employer and has established best practice procedure, from recruitment and selection, through training and development, performance reviews and promotion to retirement. We promote an environment free from discrimination, harassment and victimisation, where everyone will receive equal treatment regardless of gender, colour, ethnic or national origin, disability, age, marital status, sexual orientation or religion. It is our policy that people with disabilities should have full and fair consideration for all vacancies. Where employees become disabled during our employment, we endeavour to retain and adjust their environment where possible to allow them to maximise their potential.

Political donations

No political donations were made during the year ended 31 January 2016. The AA has a policy of not making donations to political organisations or independent election candidates or incurring political expenditure anywhere in the world as defined in the Act.

Auditors

Ernst & Young LLP have signified their willingness to continue in office as statutory auditor of the AA and we (the Board and Audit Committee) are satisfied that Ernst & Young LLP is independent and there are adequate safeguards in place to safeguard its objectivity. A resolution to reappoint Ernst & Young LLP will be proposed at the 2016 AGM.

Disclosure of information to the auditor

So far as the Directors are aware, there is no relevant audit information that has not been brought to the attention of the Company's auditor during the audit process. Each Director has taken all reasonable steps to make himself or herself aware of any relevant audit information and to establish that such information was provided to the auditor.

2016 Annual General Meeting

The Company's AGM will be held at King & Wood Mallesons LLP, 10 Queen Street Place, London, EC4R 1BE on 9 June 2016 at 12 noon.

The Notice convening the 2016 AGM is contained in a circular sent to all shareholders. Full details of all resolutions to be proposed are provided in this circular and the Directors consider that all of the resolutions set out are in the best interests of the Company and its shareholders as a whole. The Directors will be voting in favour of them and unanimously recommend that shareholders vote in favour of each of them.

Responsibility of Directors

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of their profit or loss for that period.

In preparing these financial statements, the Directors are required to

- › select suitable accounting policies and then apply them consistently,
- › make judgements and accounting estimates that are reasonable and prudent,
- › state whether applicable IFRS as adopted by the EU have been followed, subject to any material departures disclosed and explained in the financial statements, and
- › prepare the Group's and Company's financial statements on a going concern basis, unless it is inappropriate to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the AA and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. The Directors are also responsible for safeguarding the assets of the AA and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Responsibility statement of the directors in respect of the Annual Report and financial statements

Each of the Directors as at the date of the Annual Report (as noted on pages 48-49) confirm that to the best of their knowledge

- › the Group and Company financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole,
- › the **Strategic Report and Directors Report** on pages 2 to 42 and 78 to 81 include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces, and
- › the **Annual Report**, taken as a whole, is fair, balanced and understandable and provides the necessary information for shareholders to assess the Group's performance, business model and strategy.

A copy of the financial statements of the Group is placed on the Company's website at www.theaapl.com. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Statement of Directors' Responsibilities was approved by the Board of Directors, as listed on pages 46 and 47, on 4 April 2016 and signed on its behalf by the Company Secretary.

IMAGE REMOVED

Mark Millar
Company Secretary
4 April 2016

Accountability

Independent Auditor's Report

to the Members of AA plc

1 Our opinion on the financial statements is unmodified

In our opinion

- › the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 January 2016 and of the Group's profit for the year then ended,
- › the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union,
- › the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework', and
- › the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation

2 Overview

Materiality

Overall Group materiality of £8.0m which represents approximately 2% of earnings before interest, tax, depreciation and amortisation (EBITDA) adjusted for Exceptional items

Audit scope

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

The divisions and entities where we performed full and specific scope audit procedures accounted for 96% of the Group's revenue, 99% of the Group's EBITDA adjusted for Exceptional items and 98% of the Group's total assets

Risk of material misstatement

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

3 Our assessment of the risk of material misstatement

The table below shows the risks of material misstatement we identified that had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas

Risk	How our audit work addressed the risk	What we concluded to the Audit Committee
Revenue recognition (£973m, 2015 £984m)		
Refer to page 56 (Audit Committee report) and note 1.3 (m) (accounting policy)		
The basis of recognising revenue differs between the various products and services provided by the Group as set out in accounting policy 1.3 (m). We consider that the variety of personal and business roadside assistance, insurance and driving services contracts in place presents an increased risk of error or potential management override, particularly judgements in respect of new contracts and product terms and features. Specifically we considered the impact of new invoicing arrangements for the Roadside Arrangement and Administration Fee ('AAF') implemented in the year.	<ul style="list-style-type: none"> › We considered the Group's accounting policies in respect of revenue recognition to ensure that they appropriately reflected the requirements of IAS18 and IFRS4 › We assessed the design, implementation and operating effectiveness of key controls over revenue recognition and tested controls over revenue processing for the principal roadside assistance, insurance and driving services income streams › We performed tests of detail to assess whether the revenue recognition practices adopted complied with the stated accounting policies. In particular, we tested a sample of roadside assistance revenue transactions to ensure that revenue had been deferred in a manner consistent with the relevant contract and a sample of insurance broking transactions to confirm that all services under the contract had been performed at the point at which revenue was recognised › We inspected a sample of journal entries for any evidence of management override and obtained support for individually unusual and/or material revenue journals › We performed analytical procedures to compare revenue recognised with our expectations from past experience, management's forecasts and our understanding of product features and terms › We inspected material new business roadside assistance contracts and changes to product terms and features for personal roadside assistance products to ensure that revenue had been recognised in accordance with the Group's accounting policies › For the system where management has implemented additional procedures, we tested controls over those procedures. We checked the completeness of data used in the calculation of revenue, tested the methodology used to generate accounting entries by re-performing a sample of calculations and ensured that the resulting accounting entries had been accurately processed 	<p>We are satisfied that appropriate revenue recognition policies have been adopted and complied with for both existing arrangements and new contracts and terms.</p> <p>Based on additional procedures carried out by management and the results of our own testing we are satisfied that revenue transactions have been appropriately recorded</p>
Management has previously identified issues with the way in which an underlying system generates accounting entries for processing and deferring revenue from the personal roadside business and has implemented additional procedures to ensure the accurate recording of such revenue		

Risk	How our audit work addressed the risk	What we concluded to the Audit Committee
Valuation of the net pension scheme liability (£296m, 2015 £434m)		
Refer to page 56 (Audit Committee report), note 13 (i) (accounting policy) and note 23 (disclosures)		
The Group operates three defined benefit pension schemes and we consider the valuation of the net pension liability to be a significant risk as	➤ Using external data we verified the appropriateness of the key actuarial assumptions used by management in determining the pension obligation under IAS19 (R) as detailed in note 23 of the consolidated financial statements	Based on our procedures we are satisfied that the values of assets held within the scheme are appropriately supported We concluded that assumptions used to determine the defined benefit obligation fall within an acceptable range
➤ The actuarial assumptions used to value the pension scheme liabilities are judgemental and sensitive	➤ We determined whether the assumptions used met the requirements of IFRS and were in line with market practice, as well as the specific circumstances of the schemes and their participants. This included a comparison of life expectancy with relevant mortality tables benchmarking inflation and discount rates against external market data considering changes in historical assumptions and evaluating the independence, qualifications and results of work performed by management's experts involved in the valuation process. We used our pension specialists to assist us with these procedures	
➤ The schemes hold some complex and illiquid assets for which there are no quoted prices. Prices are obtained directly from the relevant investment managers who apply judgement in valuing those assets	➤ We obtained net asset value (NAV) statements in respect of the schemes' investments directly from the fund administrator and reconciled them to both the schemes' custody records and the Group financial statements	
Due to the significance of the value of the pension obligation a small change in actuarial assumptions may result in a material difference to the amounts reported	➤ Where applicable we reviewed administrator controls reports for controls over valuation of complex assets	
	➤ We obtained and reviewed a sample of audited fund financial statements to assess whether the NAV was appropriate	
Financial instrument measurement, recognition and disclosure (Borrowings £2,893m (2015 £3,191m), Interest rate swaps used for hedging – assets £nil (2015 £21m) and liabilities £27m (2015 £50m))		
Refer to page 56 (Audit Committee report) note 13 (h) (accounting policy) and notes 18 and 25 (disclosures)		
During the year the Group raised £199m of equity and issued new Class B2 notes of £735m whilst repaying certain categories of historic borrowing instruments including Class B and PIK notes	➤ We inspected the terms of the class A class B and PIK loan agreements and using our financial instrument valuation specialists, performed our own valuation of the prepayment options in the various loan notes	Based on our procedures we are satisfied that derivatives have been appropriately identified valued and recorded We are also satisfied that the application of cash flow hedge accounting is appropriately supported
Certain of the Group's new borrowing instruments described in note 18 to the financial statements contain prepayment options, which potentially represent embedded derivatives requiring separation from the host and measurement at fair value under IAS39	➤ We assessed the design, implementation and operating effectiveness of key controls over the valuation of the hedging instruments and the application of hedge accounting	
The Group has hedged the variable interest rate exposure on the Senior Term facility using interest rate swap arrangements as described in note 18. Cash flow hedge accounting has been applied to these arrangements	➤ Using our derivative valuation specialists, we re-performed the valuation of a sample of the swaps used as hedging instruments	
The judgment involved in identifying and valuing embedded derivatives within the loan instruments and in demonstrating hedge effectiveness for the cash flow hedge accounting leads to a higher risk of error in the recognition measurement and disclosure of financial instruments in the financial statements	➤ We critically assessed management's hedging documentation to confirm that it demonstrated hedge effectiveness as required by IAS39	
	➤ We confirmed the amounts recorded in OCI and the income statement to the movements in the valuations of the swaps in the period	
Goodwill impairment (carrying value £1,199m, 2015 £1,199m)		
Refer to page 56 (Audit Committee report) note 13 (i) (accounting policy) and notes 9 and 24 (disclosures)		
The goodwill balance as at 31 January 2016 is significant based on its size relative to the total assets of the Group	➤ We examined management's impairment model, which included an assessment of discounted cashflows to understand the significant assumptions used in the impairment test for each CGU	Based on our procedures which included additional sensitivity analysis we are satisfied that no impairment of the recorded goodwill has been identified
The AA plc 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 at the date of acquisition in 2004	➤ We engaged our specialist team to review the reasonableness of the discount rate	
Management analyses discounted cash flows at the Cash Generating Units (CGU) level to calculate the value in use for each CGU as required by IAS 36. This calculation represents a significant estimate including judgements related to future EBITDA growth and discount rate assumptions	➤ We performed stress testing to assess the impact of certain key variables on the levels of headroom, including discount rate and EBITDA growth assumptions	
	➤ We ensured compliance with the Group's accounting policy	

Independent Auditor's Report continued

Risk	How our audit work addressed the risk	What we concluded to the Audit Committee
Valuation and accounting for incentive schemes (IFRS 2 charge £5m, 2015 £2m)		
Refer to page 56 (Audit Committee report) note 13 (s) (accounting policy) and note 32 (disclosure)		
As at 31 January 2016 the AA Group operated the following significant incentive schemes	<ul style="list-style-type: none"> > We reviewed the terms for the new share incentive schemes to ascertain the appropriate accounting treatment in line with IFRS 2 > We engaged our specialist team to review the methodology and the key assumptions used by management's experts in the valuation of the new incentive schemes as at 31 January 2016. Our specialists performed corroborative valuations of the new incentive schemes to conclude on their reasonableness > We evaluated the independence and qualifications of management's experts involved in the valuation process > We confirmed the related disclosures in the financial statements to be in compliance with IFRS 	Based on our audit work we are satisfied that the valuation methodology applied by management's expert is appropriate and consistent with appraisal practice given the characteristics of the schemes and the purpose of the valuation
Management Value Participation Shares (MVP shares) MVP shares entitle the holders to participate in the Total Shareholder Return (TSR) over the first five years following the listing of AA's shares. The scheme is based on the satisfaction of a performance condition tested on the third, fourth and fifth anniversaries of Admission and is divided into the following two tranches: <ul style="list-style-type: none"> > The first tranche of MVP shares representing 40% of the total MVP shares allocation granted on the Admission Date > The second tranche of MVP shares representing the remaining 60% of the total MVP shares allocation of which 45.8% was granted as at 22 December 2015 		We are also satisfied that the key assumptions used in the valuation of the share based payment schemes granted in the year ended 31 January 2016 are within a reasonable range, given the facts and circumstances present as of the respective valuation dates
Pay-out is based on the performance of TSR of the underlying AA stock relative to a hurdle rate set by AA		
Long Term Bonus Plan (LTBP) The grant dates of the LTBP awards (which are applicable to management below the Board) are 13 August 2015 and 16 November 2015. The vesting of the LTBP awards is also subject to a TSR performance condition between the date of IPO and the vesting dates being three, four and five years after the Admission Date All share based schemes have been accounted for as equity settled awards. Under IFRS 2 the fair value of the equity settled awards is measured at the grant date. This requires a view to be taken at that date as to the expectation of performance conditions being met		

4 Our application of materiality

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

Materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole. We determined materiality for the Group to be £8.0m, which is approximately 2% of EBITDA. We base our materiality on an EBITDA performance measure as Trading EBITDA is the key metric used by management in measuring and reporting on the performance of the business. In presenting its measure of Trading EBITDA, management adjusts EBITDA for non-recurring items and also certain recurring items that are not allocated in assessing segment performance. In calculating materiality, we have adjusted EBITDA only for Exceptional items which we considered to be non-recurring. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

During the course of our audit, we reassessed initial materiality. Our final calculated materiality did not result in any substantive change in our audit procedures.

Performance materiality

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement is that overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Group should be 50 per cent of materiality, namely £4.0m. Our objective in adopting this approach is to ensure that total uncorrected and undetected audit differences do not exceed our materiality of £8.0m for the financial statements as a whole.

Audit work in respect of individual components is undertaken based on a percentage of our total performance materiality. The performance materiality set for each component is based on the relative size of the component and our view of the risk of misstatement at that component. The range of the performance materiality allocated to components was £0.8m to £2.9m.

Reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.4m, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view warranted reporting on qualitative grounds. We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations.

5 An overview of the scope of our audit

Following our assessment of the risk of material misstatement to the Group financial statements, our audit scope focused on the two largest components, Roadside Assistance and Insurance Services, which were subject to a full scope audit for the year ended 31 January 2016. For the remaining components (Driving Services and Ireland) and the statutory entities containing the Group's borrowings and related hedging instruments, pension scheme balances and head office costs, specific audit procedures were performed including full audit of the accounts that were impacted by our specific assessment of risks of material misstatement for those components. The components for which we performed full scope audits accounted for 88% of the Group's revenue, 90% of the Group's Trading EBITDA and 81% of the Group's Total assets.

The specific scope components contributed 9% of the Group's Trading EBITDA, 8% of the Group's Revenue and 17% of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component.

The remaining components together represent 1% of the Group's Trading EBITDA. For these components, we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

Items not allocated to a segment and therefore not included in the Trading EBITDA coverage, include the difference between the cash contributions to the pension schemes for on-going service and the calculated annual service cost and share-based payments. Pensions and Incentive schemes have been subject to specific audit procedures as set out in this report.

The charts below illustrate the coverage obtained from the work performed by our audit teams.

6 What we have audited

We have audited the financial statements of AA plc for the year ended 31 January 2016 which comprise:

Group

- › the consolidated income statement
- › the consolidated statement of other comprehensive income
- › the consolidated statement of financial position
- › the consolidated statement of changes in equity
- › the consolidated statement of cash flows
- › the related notes 1 to 35 to the consolidated financial statements

Company

- › the Company balance sheet
- › the related notes 1 to 11 to the Company financial statements

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

The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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

7 Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 81, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

8 Scope of the audit of the financial statements

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

EBITDA (%)

Revenue (%)

Total assets (%)

IMAGE REMOVED

IMAGE REMOVED

IMAGE REMOVED

Independent Auditor's Report continued

9 Opinion on other matters prescribed by the Companies Act 2006

In our opinion

- › the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- › based on the work undertaken in the course of the audit
 - the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements
 - the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements

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

10 Matters on which we are required to report by exception

ISAs (UK and Ireland) reporting

We are required to report to you if, in our opinion, financial and non-financial information in the annual report is

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

In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy, and whether the annual report appropriately addresses those matters that we communicated to the audit committee that we consider should have been disclosed

We have no exceptions to report

Companies Act 2006 reporting

We are required to report to you if, in our opinion

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

We have no exceptions to report

Listing Rules review requirements

We are required to review

- › the directors' statement, set out on page 80, in relation to going concern and longer-term viability, and
- › the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review

We have no exceptions to report

Statement on the Directors' Assessment of the Principal Risks that Would Threaten the Solvency or Liquidity of the Entity

ISAs (UK and Ireland) reporting

We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to

- › the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity,
- › the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated,
- › the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements, and
- › the directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions

We have nothing material to add or to draw attention to

Kathryn Barrow (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

4 April 2016

- 1 The maintenance and integrity of the AA plc web site is the responsibility of the directors the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site
- 2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Financial statements

for the year ended 31 January 2016

Our Business

Our Performance

Governance

Financial Statements

Consolidated income statement

for the year ended 31 January

	Note	2016 £m	2015 £m
Revenue	2	973	984
Cost of sales		(347)	(346)
Gross profit		626	638
Administrative & marketing expenses		(322)	(313)
Share of profits of joint venture and associates, net of tax		1	1
Operating profit		305	326
Trading EBITDA	2	415	430
Items not allocated to a segment	2	(18)	(8)
Amortisation and depreciation	9,11	(54)	(48)
Exceptional items	3	(38)	(48)
Operating profit	3	305	326
Finance costs	4	(289)	(266)
Finance income	5	1	1
Profit before tax		17	61
Tax (expense)/credit	7	(11)	8
Profit for the year		6	69
Earnings per share from profit for the year	Note	2016 pence	2015 pence
Basic	8	10	13.3
Diluted	8	10	13.3

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

Consolidated statement of financial position

for the year ended 31 January

	Note	2016 £m	2015 £m
Non-current assets			
Goodwill and other intangible assets	9	1,298	1,257
Property, plant and equipment	11	122	100
Investments in joint ventures and associates	12	10	4
Deferred tax assets	7	52	81
Other receivables	14	-	21
		1,482	1,463
Current assets			
Inventories	13	5	5
Trade and other receivables	14	172	187
Current tax receivable		-	1
Cash and cash equivalents	15	166	302
		343	495
Total assets		1,825	1,958
Current liabilities			
Trade and other payables	16	(518)	(498)
Current tax payable		(7)	-
Provisions	19	(8)	(8)
		(533)	(506)
Non-current liabilities			
Borrowings and loans	17	(2,920)	(3,241)
Finance lease obligations	27	(21)	(16)
Defined benefit pension scheme net liabilities	23	(296)	(434)
Provisions	19	(7)	(12)
Insurance technical provisions	20	(4)	(4)
		(3,248)	(3,707)
Total liabilities		(3,781)	(4,213)
Net liabilities		(1,956)	(2,255)
Equity			
Share capital	21	1	1
Share premium	22	399	200
Own shares	22	(22)	-
Currency translation reserve	22	(1)	(2)
Cashflow hedge reserve	22	(10)	(18)
Retained earnings	22	(2,323)	(2,436)
Total equity attributable to equity holders of the parent		(1,956)	(2,255)

Signed for and on behalf of the Board on 4 April 2016 by:


Bob Mackenzie
Executive Chairman


Martin Clarke
Chief Financial Officer

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

Consolidated statement of comprehensive income

for the year ended 31 January

	Note	2016 £m	2015 £m
Profit for the year		6	69
Other comprehensive income on items that may be reclassified to profit and loss in subsequent years			
Exchange differences on translation of foreign operations		1	(1)
Effective portion of changes in fair value of cash flow hedges		10	(14)
Tax effect (expense)/credit	7	(2)	3
		9	(12)
Other comprehensive income on items that will not be reclassified to profit and loss in subsequent years			
Remeasurement on gains/(losses) on defined benefit schemes	23	149	(167)
Tax effect (expense)/credit	7	(26)	32
		123	(135)
Total other comprehensive income	22	132	(147)
Total comprehensive income for the year		138	(78)

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

Consolidated statement of changes in equity

for the year ended 31 January

	Attributable to the equity holders of the parent						Total £m
	Share capital £m	Share premium £m	Own shares £m	Currency translation reserve £m	Cashflow hedge reserve £m	Retained earnings £m	
At 1 February 2014	-	1	-	(1)	(7)	(2,372)	(2,379)
Profit for the year	-	-	-	-	-	69	69
Other comprehensive income	-	-	-	(1)	(11)	(135)	(147)
Total comprehensive income	-	-	-	(1)	(11)	(66)	(78)
Issue of share capital	1	199	-	-	-	-	200
Share-based payments	-	-	-	-	-	2	2
At 31 January 2015	1	200	-	(2)	(18)	(2,436)	(2,255)
Profit for the year	-	-	-	-	-	6	6
Other comprehensive income	-	-	-	1	8	123	132
Total comprehensive income	-	-	-	1	8	129	138
Dividends	-	-	-	-	-	(21)	(21)
Issue of share capital	-	199	-	-	-	-	199
Purchase of own shares	-	-	(22)	-	-	-	(22)
Share-based payments	-	-	-	-	-	5	5
At 31 January 2016	1	399	(22)	(1)	(10)	(2,323)	(1,956)

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

Consolidated statement of cash flows

for the year ended 31 January

	Note	2016 £m	2015 £m
Profit before tax		17	61
Amortisation and depreciation	9, 11	54	48
Net finance costs	4, 5	288	265
Other adjustments to profit before tax		12	-
Working capital			
Decrease/(increase) in trade and other receivables		13	(24)
Increase in trade and other payables		6	25
Decrease in provisions		(6)	(7)
Difference between pension charge and cash contributions		(1)	(9)
Total working capital adjustments		12	(15)
Net cash flows from operating activities before tax		383	359
Tax paid		(2)	(2)
Net cash flows from operating activities		381	357
Investing activities			
Capital expenditure		(75)	(37)
Proceeds from sale of fixed assets		11	15
Acquisitions and disposals, net of cash acquired or disposed of		(8)	-
Proceeds from fixed term investments – restricted		-	5
Interest received		1	1
Net cash flows used in investing activities		(71)	(16)
Financing activities			
Proceeds from borrowings		735	913
Issue costs on borrowings		(16)	(10)
Debt repayment penalties		(62)	(3)
Repayment of borrowings		(1,039)	(1,088)
Share capital issued		199	200
Refinancing transactions		(183)	12
Purchase of own shares		(22)	-
Interest paid on borrowings		(178)	(218)
Payment of finance lease capital		(34)	(31)
Payment of finance lease interest		(8)	(4)
Dividends paid		(21)	-
Net cash flows from financing activities		(446)	(241)
Net (decrease)/increase in cash and cash equivalents		(136)	100
Net foreign exchange differences		-	(1)
Cash and cash equivalents at start of year	15	302	203
Cash and cash equivalents at end of year	15	166	302

The cash flows from operating activities are stated net of cash outflows relating to exceptional items of £37m (2015 £57m). This relates to the cost of business transformation of £21m (2015 £nil), share issue costs of £1m (2015 £32m), re-financing of the Group's borrowings £4m (2015 £1m), acquisition earn-out payments of £nil (2015 £2m), non-recurring costs of IT system implementation and cost restructuring activities of £7m (2015 £18m) and onerous property provision lease costs in respect of vacant properties of £4m (2015 £4m).

Other adjustments to profit before tax of £12m (2015 £nil) include share of profit from joint ventures and associates of (£1m) (2015 (£1m)), share based payments of £5m (2015 £2m), loss on sale of fixed assets of £3m (2015 £nil), loss on disposal of subsidiary of £5m (2015 £nil) and other items of £nil (2015 (£1m)).

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

Notes to the consolidated financial statements

1 Basis of preparation and accounting policies

1.1 General information

The consolidated financial statements for the year ended 31 January 2016 comprise the financial statements of AA plc ('the Company') and its subsidiaries (together referred to as 'the Group'). AA plc is a public limited company incorporated and domiciled in the United Kingdom.

These statements have been presented to the nearest £million and the prior year comparatives have been restated accordingly.

1.2 Basis of preparation

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.

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 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.

1.3 Accounting policies

The principal accounting policies are set out below.

a) 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.

b) 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.

c) 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 items not allocated to a segment within administrative and marketing expenses.

d) 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.

e) 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.

Notes to the consolidated financial statements continued

1 Basis of preparation and accounting policies (continued)

1.3 Accounting policies (continued)

f) 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.

g) 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.

h) 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 instrument, 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 and fuel prices. The Group uses interest rate and fuel swap contracts to hedge these exposures.

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

Cashflow hedges

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

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

i) 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.

1 Basis of preparation and accounting policies (continued)

1.3 Accounting policies (continued)

j) 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.

k) 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.

l) 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.

m) 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.

n) 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.

o) Exceptional items and Adjusted EPS

Exceptional items are events or transactions that fall within the operating activities of the Group and which by virtue of their size or incidence have been disclosed in order to improve a reader's understanding of the financial statements. See note 3 for further information on the nature of exceptional items.

In addition, occasionally there are events or transactions that fall below operating profit that are one-off in nature and items within operating profit that relate to transactions that do not form part of the on-going segment performance and which by virtue of their size or incidence have been separately disclosed in the financial statements.

Adjusted earnings per share adjusts profit after tax for items that are one-off in nature or related to transactions that do not form part of the on-going performance, as defined above. See note 8 for a reconciliation of Adjusted EPS.

Notes to the consolidated financial statements continued

1 Basis of preparation and accounting policies (continued)

1.3 Accounting policies (continued)

p) 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

q) 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

r) 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

s) Share-based payments

The Group operates a number of equity settled, share-based payment compensation plans for employees. The fair value of the equity settled awards is measured at the grant date based on expectations of performance conditions being met. The fair value of the awards is recognised as an expense with a corresponding credit to reserves

t) Critical accounting estimates and judgements

Estimates are evaluated continually and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions about the future. The resulting accounting estimates will, by definition, seldom equal the related actual results

Management have exercised judgement in applying the Group's accounting policies and in making critical estimates. The underlying assumptions on which these judgements are based, are reviewed on an on-going basis and include the selection of assumptions in relation to the retirement benefit obligation and assumptions for future growth of cash flows to support the value-in-use calculations for the goodwill impairment review

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

Goodwill

The Group tests goodwill for impairment annually. The recoverable amounts of cash generating units have been determined based on value-in-use calculations which require the use of estimates. Management have prepared discounted cash flows based on the latest strategic plan

Share-based payments

The Group has issued a number of share-based payment awards to employees during the year which are measured at fair value. This involves estimates about the expected volatility of the share price and the number of leavers over the vesting period

2 Segmental information

	2016 £m	2015 £m
Revenue		
Roadside Assistance	724	711
Insurance Services	131	142
Driving Services	68	74
Ireland	38	39
Insurance Underwriting	2	1
Trading Revenue	963	967
Revenue from business disposed of	10	17
Group Revenue	973	984
Trading EBITDA		
Roadside Assistance	361	358
Insurance Services	78	84
Driving Services	19	20
Ireland	13	15
Head Office costs	(56)	(48)
Trading EBITDA	415	429
EBITDA from business disposed of	-	1
Group Trading EBITDA	415	430
Items not allocated to a segment	(18)	(8)
Amortisation and depreciation	(54)	(48)
Exceptional items	(38)	(48)
Operating profit	305	326
Net finance costs	(288)	(265)
Profit before tax	17	61

With the exception of Ireland, all other segments operate principally in the UK. Turnover by destination is not materially different from turnover by origin.

During August 2015, AA plc group agreed to dispose of its windscreen replacement subsidiary Autowindshields (UK) Limited. Contracts were exchanged in August 2015 and the sale was completed by the end of the financial year. The results of this business have been presented above as business disposed of.

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 as well as its Home Services and Financial Services activities.
- › **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 parts 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 and roadside assistance in support of other businesses within the Group.
- › **Head Office costs:** This segment includes IT, finance, property and other back office support functions.

Notes to the consolidated financial statements continued

2 Segmental information (continued)

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 and items not allocated to a segment and better reflects the Group's underlying performance.

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 2016 these principally relate to the difference between the cash contributions to the pension schemes for on-going service and the calculated annual service cost and share-based payments (see note 32).

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

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

3 Operating profit

Operating profit is stated after charging

	2016 £m	2015 £m
Amortisation of owned intangible assets	23	20
Depreciation of owned tangible fixed assets	11	10
Depreciation of leased tangible fixed assets	20	18
Operating lease rentals payable – land and buildings	5	4
Operating lease rentals payable – plant and machinery	–	6
Exceptional items	38	48

Exceptional costs include £5m for the loss on disposal of Autowindshields (UK) Limited (2015: £nil), £4m relating to financing transactions (2015: £1m), £22m relating to business transformation costs (2015: £nil) and £7m mainly relating to non-recurring costs for IT system implementation, onerous property lease costs, loss on disposal of fixed assets and cost restructuring activities (2015: £14m). In addition, in the prior year £33m related to IPO costs.

4 Finance costs

	2016 £m	2015 £m
Interest on external borrowings	(178)	(211)
Finance charges payable under finance leases	(7)	(4)
Penalties on early repayment of debt	(62)	(3)
Total cash finance costs	(247)	(218)
Amortisation of debt issue fees	(22)	(30)
Transfer from cashflow hedge reserve for extinguishment of cashflow hedge	(8)	(7)
Net finance expense on defined benefit pension schemes	(12)	(11)
Total non-cash finance costs	(42)	(48)
Total finance costs	(289)	(266)

During the year, the Group repaid the original Class B notes of £655m and PIK notes of £175m (see note 18). As a result, the Group incurred early repayment penalties of £58m (2015: £nil) for the Class B notes and £4m (2015: £3m) for the PIK notes.

The Group also repaid £209m of the Senior Term Facility, following which, the Group has transferred the fair value of the cashflow hedges related to the repayment of £8m (2015: £7m) from other comprehensive income to the income statement.

Within interest on external borrowings is £13m (2015: £21m) of interest charged on the Senior Term Facility and £8m (2015: £10m) charged in relation to the interest rate swaps used to hedge the variable element of the Senior Term Facility (see note 18).

Also included within interest on external borrowings is £19m (2015: £nil) of interest costs relating to the double-running of the Class B/B2 notes from the time of issue of the Class B2 notes in April 2015 until the repayment of the Class B notes in July 2015.

Amortisation of debt issue fees includes £18m (2015: £21m) that was immediately written off following the repayment of borrowings.

5 Finance income

	2016 £m	2015 £m
Interest receivable	1	1
Total finance income	1	1

6 Staff costs

	2016 £m	2015 £m
Wages and salaries	270	258
Social security costs	24	25
Retirement benefit costs	34	27
	328	310

The average monthly number of persons employed under contracts of service during the year was

	2016	2015
Operational	6,620	6,876
Management and administration	1,242	1,277
	7,862	8,153

Notes to the consolidated financial statements continued

7 Tax

The major components of the income tax expense are

	2016 £m	2015 £m
Consolidated income statement		
Current income tax		
Current income tax charge	10	1
	10	1
Deferred tax		
Effect of tax rate change on opening balances	7	-
Relating to origination and reversal of temporary differences – current year	(6)	(9)
	1	(9)
Tax expense/(credit) in the income statement	11	(8)
	2016 £m	2015 £m
Consolidated statement of comprehensive income		
Tax on the effective portion of changes in fair value of cash flow hedges	2	(3)
Tax on remeasurements of defined benefit pension liability	26	(32)
Income tax charged/(credited) directly to other comprehensive income	28	(35)
Reconciliation of tax expense to profit before tax multiplied by UK's corporation tax rate		
	2016 £m	2015 £m
Profit before tax	17	61
Tax at rate of 20.2% (2015 21.3%)	3	13
Movement on unprovided deferred tax	-	(22)
Lower rate of foreign tax	(1)	(1)
Rate change adjustment on temporary differences	7	(1)
Expenses not deductible for tax purposes		
– Listing expenses	-	3
– Other non-deductible expenses/non-taxed income	2	-
Income tax expense/(credit) reported in the consolidated income statement at effective rate of 23.5% (2015 18.1%)	11	(8)

7 Tax (continued)**Deferred tax by type of temporary difference**

	Consolidated statement of financial position		Consolidated income statement	
	2016 £m	2015 £m	2016 £m	2015 £m
Accelerated depreciation for tax purposes	9	13	4	(2)
Revaluations of land and buildings to fair value	(1)	(1)	-	-
Rollover relief	(2)	(2)	-	-
Pension	15	42	1	(1)
Revaluation of cashflow hedges	5	6	(1)	(1)
Short-term temporary differences	9	1	(8)	1
Losses available for offsetting against future taxable income	17	22	5	(6)
Deferred tax expense/(income)			1	(9)
Net deferred tax assets	52	81		

Reconciliation of net deferred tax assets

	2016 £m	2015 £m
At start of year	81	36
Tax (expense)/income recognised in the income statement	(1)	10
Tax (expense)/income recognised in OCI	(28)	35
At end of year	52	81

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

The UK corporation tax rate will reduce from 20% to 19% on 1 April 2017 and then to 18% on 1 April 2020. These rates have been substantially enacted at the balance sheet date and have therefore been included in the deferred tax calculations.

Deferred tax has been recognised at an overall rate of 18.4% for the UK at 31 January 2016 (2015: 20%) and 12.5% for Ireland (2015: 12.5%). The UK rate has been adjusted to reflect the expected reversal profile of the Group's temporary differences.

The 2016 effective tax rate has been calculated by excluding the rate change adjustment that has arisen as a result of the future reduction in corporation tax rates affecting the carrying value of the deferred tax balances. The 2015 effective tax rate is calculated by excluding the effects of expenses relating to the IPO, not deductible for tax purposes within the taxable profit and excluding the effect of the movements in unprovided deferred tax from the tax charge.

The Group has tax losses which arose in the UK of £92m (2015: £110m) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. In the prior year, following the IPO, a deferred tax asset of £22m was recognised on these tax losses as the Group expected to have sufficient taxable profits to be able to recover these losses.

Notes to the consolidated financial statements continued

8 Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year

	2016	2015
Basic earnings per share		
Profit after tax (£m)	6	69
Weighted average number of shares outstanding (millions)	596	520
Basic earnings per share (pence)	1.0	13.3

For diluted earnings per share, the weighted average number of ordinary shares is adjusted to assume conversion of all potential dilutive ordinary shares

In the prior year, the potential dilutive ordinary shares related to the employee share scheme for the UK (SIP), where the share price at which shares were to be purchased and matching shares issued was expected to be less than the average market value of ordinary shares for the period from issue of the options to 31 January 2015. These shares were purchased and issued respectively in the current year so are no longer dilutive. Under the current year SIP, shares are purchased monthly at market value and matching shares issued contemporaneously and are therefore not dilutive.

The Group also has another class of potential dilutive ordinary shares relating to the MVP shares, see note 32. However, as at 31 January 2016, based on average market value of ordinary shares for the year, these were not dilutive.

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

	2016	2015
Weighted average number of ordinary shares in issue (millions)	596	520
Potentially dilutive shares under SIP (see note 32) (millions)	-	1
Weighted average number of diluted ordinary shares (millions)	596	521
Diluted earnings per share (pence)	1.0	13.3

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

	2016	2015
Profit after tax as reported (£m)	6	69
Adjusted for:		
Exceptional items (£m)	38	48
Items not allocated to a segment (£m)	18	8
Write off of debt issue fees following refinancing (see note 4) (£m)	18	21
Penalties on early repayment of debt (see note 4) (£m)	62	3
Double-running interest cost of Class B/B2 notes (see note 4) (£m)	19	-
Transfer from cashflow hedge reserve for extinguishment of cashflow hedge (see note 4) (£m)	8	7
Tax expense/(credit) (£m)	11	(8)
Adjusted profit before tax (£m)	180	148
Tax at the effective rate of 23.5% (2015: 18.1%) (£m)	(42)	(27)
Adjusted profit after tax (£m)	138	121
Weighted average number of shares outstanding (millions)	596	520
Adjusted basic earnings per share (pence)	23.2	23.3
Weighted average number of diluted ordinary shares (millions)	596	521
Adjusted diluted earnings per share (pence)	23.2	23.2

Adjusted earnings per share adjusts profit after tax for items that are one-off in nature or relate to transactions that do not form part of the on-going segment performance.

9 Goodwill and other intangible assets

	Goodwill £m	Software £m	Total £m
Cost			
At 1 February 2014	1,199	100	1,299
Additions	–	31	31
Disposals	–	(2)	(2)
At 31 January 2015	1,199	129	1,328
Additions	–	64	64
Disposals	–	(2)	(2)
At 31 January 2016	1,199	191	1,390
Amortisation and impairment			
At 1 February 2014	–	53	53
Amortisation	–	20	20
Disposals	–	(2)	(2)
At 31 January 2015	–	71	71
Amortisation	–	23	23
Disposals	–	(2)	(2)
At 31 January 2016	–	92	92
Net book value			
At 31 January 2016	1,199	99	1,298
At 31 January 2015	1,199	58	1,257

Within software, £53m (2015 £10m) relates to assets under construction which are not amortised

Software additions comprise of £13m (2015 £14m) in relation to internally developed assets and £51m (2015 £17m) in relation to separately acquired assets

Notes to the consolidated financial statements continued

10 Business combinations

Acquisitions during the year ended 31 January 2016

On 18 August 2015 the Group acquired the entire share capital of XL Insurance (Gibraltar) Limited, an insurance underwriter, for a total consideration of £7m. It was then renamed AA Underwriting Insurance Company Limited.

Acquisitions during the year ended 31 January 2015

There were no acquisitions in the prior year.

11 Property, plant and equipment

	Freehold Land & Buildings £m	Long Leasehold Land & Buildings £m	Vehicles £m	Plant & equipment £m	Total £m
Cost					
At 1 February 2014	24	10	66	104	204
Additions	-	-	62	5	67
Disposals	-	-	(36)	(1)	(37)
Exchange adjustments	-	-	-	(1)	(1)
At 31 January 2015	24	10	92	107	233
Additions	-	-	47	21	68
Disposals	-	-	(50)	(3)	(53)
At 31 January 2016	24	10	89	125	248
Depreciation and Impairment					
At 1 February 2014	5	3	41	78	127
Charge for the year	1	1	16	10	28
Disposals	-	-	(20)	(1)	(21)
Exchange adjustments	-	-	-	(1)	(1)
At 31 January 2015	6	4	37	86	133
Charge for the year	1	-	21	9	31
Disposals	-	-	(36)	(2)	(38)
At 31 January 2016	7	4	22	93	126
Net book value					
At 31 January 2016	17	6	67	32	122
At 31 January 2015	18	6	55	21	100

The net book amount of vehicles includes £65m (2015: £54m) held under finance lease agreements. The accumulated depreciation on these assets is £19m (2015: £35m).

The net book amount of other assets includes £nil (2015: £nil) in respect of plant & machinery held under finance lease agreements. The accumulated depreciation on these assets is £8m (2015: £8m).

12 Investments in joint ventures and associates

	2016			2015		
	Joint ventures £m	Associates £m	Total £m	Joint ventures £m	Associates £m	Total £m
At start of year	1	3	4	-	3	3
Additions	5	-	5	-	-	-
Share of profits	-	1	1	1	-	1
Exchange differences	-	-	-	-	-	-
At end of year	6	4	10	1	3	4

The joint ventures of the Group which are indirectly held are detailed below

Company	Country of registration	Nature of business
AA Law Limited (49% interest held) ¹	England	Insurance services
TVS Auto Assist (India) Limited (49% interest held) ²	India	Roadside services
Motoriety UK Limited (50% interest held)	England	Roadside services

¹ The Group exercises joint control over AA Law Limited through its equal representation on the Board

² The Group exercises joint control over TVS Auto Assist (India) Limited through its joint influence over key decision making

The 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

13 Inventories

	2016 £m	2015 £m
Finished goods	5	5
	5	5

14 Trade and other receivables

	2016 £m	2015 £m
Current		
Trade receivables	146	156
Prepayments and accrued income	22	26
Other receivables	4	5
	172	187
Non-current		
Interest rate swap derivatives (see note 25)	-	21
	-	21

Included in trade receivables are amounts of £89m (2015 £89m) relating to amounts due from insurance broking customers

Notes to the consolidated financial statements continued

15 Cash and cash equivalents

	2016 £m	2015 £m
Ring-fenced cash at bank and in hand – available	74	244
Ring-fenced cash at bank and in hand – restricted	20	18
Non ring-fenced cash at bank and in hand – available	58	15
Non ring-fenced cash at bank and in hand – restricted	14	25
	166	302

Ring-fenced cash and cash equivalents relate to cash held by AA Intermediate Co Limited and its subsidiaries. Dividends can only be paid to AA plc when certain debt to EBITDA and cashflow criteria are met.

Cash at bank and in hand – restricted includes £nil (2015: £19m) held as pre-funded interest to cover interest payments on the PIK notes (see note 18) and could not be used for any other purpose.

Cash at bank and in hand includes £34m (2015: £24m) 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 and include £7m held as part of the capital requirements of the new insurance underwriter.

16 Trade and other payables

	2016 £m	2015 £m
Trade payables	110	114
Other taxes and social security costs	23	25
Accruals	67	66
Deferred income	248	238
Other payables	30	20
Obligations under finance lease agreements (note 27)	40	35
	518	498

Included in trade payables are amounts of £86m (2015: £85m) relating to amounts due to underwriters in respect of insurance broking activities.

17 Borrowings and loans

	2016 £m	2015 £m
Borrowings (see note 18)	2,893	3,191
Interest rate and fuel swap used for hedging (see note 25)	27	50
	2,920	3,241

The interest rate swap liability is shown on a net basis as at 31 January 2016 as the liability is settled with each counterparty on a net basis. On a gross basis, the asset is £24m (2015: £21m) and the liability is £51m (2015: £50m).

18 Borrowings

	Expected maturity date	Interest rate	Principal £m	Issue costs £m	Amortised issue costs £m	Total at 31 January 2016 £m	Total at 31 January 2015 £m
Senior Term Facility	31 January 2019	4.36%	454	(3)	1	452	661
Class A1 notes	31 July 2018	4.72%	475	(3)	2	474	473
Class A2 notes	31 July 2025	6.27%	500	(1)	-	499	499
Class A3 notes	31 July 2020	4.25%	500	(3)	1	498	498
Class A4 notes	31 July 2019	3.78%	250	(2)	1	249	248
Class B notes	31 July 2019	-	-	-	-	-	639
Class B2 notes	31 July 2022	5.50%	735	(16)	2	721	-
PIK notes	6 November 2019	-	-	-	-	-	173
		4.97%	2,914	(28)	7	2,893	3,191

A summary of the Group's financing transactions are shown below

	Senior Term Facility £m	Class A1 £m	Class A2 £m	Class A3 £m	Class A4 £m	Class B £m	Class B2 £m	PIK notes £m	Total £m
As at 1 February 2015	663	475	500	500	250	655	-	175	3,218
Issue date									
25 March 2015	(97)	-	-	-	-	-	-	-	(97)
13 April 2015	-	-	-	-	-	-	735	-	735
24 April 2015	-	-	-	-	-	-	-	(175)	(175)
30 April 2015	(112)	-	-	-	-	-	-	-	(112)
31 July 2015	-	-	-	-	-	(655)	-	-	(655)
Total	454	475	500	500	250	-	735	-	2,914

At 31 January 2016, the Senior Term Facility carried interest at a rate of LIBOR plus a margin of 2%. The variable element has been fully hedged using matching interest rate swap arrangements which fix LIBOR at 2.36% until 31 July 2018 and then at 3.00% until 31 January 2019. All other borrowings have fixed interest rates. The weighted average interest rate for all borrowings of 4.97% has been calculated using the effective interest rate and carrying values on 31 January 2016.

In order to show the Group's net borrowings, the notes and the issue costs have been offset. Issue costs are shown net of any premium on the issue of borrowings. Interest rate swaps are recognised in the consolidated statement of financial position at fair value at the period end.

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 Limited group's assets ranks ahead of the Class B2 notes. The Class B2 notes have first ranking security over the assets of the immediate parent undertaking of the AA Intermediate Co Limited group, AA Mid Co Limited. AA Mid Co Limited group can only pay a dividend when certain net debt to EBITDA and cashflow criteria are met.

The Class B2 notes have an initial period to 31 July 2018 when any voluntary repayment would incur a make-whole payment and incur all remaining interest due to 31 July 2018. After this period, there is a further two year period when any voluntary repayment would be made at a fixed premium based on the date of redemption. Any voluntary early repayments of the Class A notes, would incur a make-whole payment.

Due to the early repayment of the Class B notes and the PIK notes, early repayment fees of £58m and £4m respectively were incurred in the year.

Following the repayment of £209m of the Senior Term Facility and repayment of the PIK notes and Class B notes, amortisation of the associated issue fees has been accelerated and an additional £18m (2015: £21m) has been written off in the year.

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

The Class A and Class B2 notes therefore place restrictions on the Group's ability to upstream cash from the key trading companies to pay external dividends and finance activities unconstrained by the restrictions embedded in the financing documents.

The Class A notes only permit the release of cash providing the senior leverage ratio after payment is less than 5.5x and providing there is sufficient excess cash flow to cover the payment. The Class B2 note restrictions came into effect during the 2016 financial year refinancing and only permit the release of cash providing the fixed charge cover ratio after payment is more than 2.1 and providing that the aggregate payments do not exceed 50% of the accumulated consolidated net income.

Notes to the consolidated financial statements continued

19 Provisions

	Property Leases £m	Restructuring £m	Other £m	Total £m
At 1 February 2014	25	2	1	28
Utilised during the year	(4)	(1)	(1)	(6)
Released unutilised during the year	(4)	–	(1)	(5)
Charge for the year	1	–	2	3
At 31 January 2015	18	1	1	20
Utilised during the year	(4)	–	(1)	(5)
Released unutilised during the year	(2)	–	–	(2)
Charge for the year	1	–	1	2
At 31 January 2016	13	1	1	15
Current	6	1	1	8
Non-current	7	–	–	7
At 31 January 2016	13	1	1	15
Current	6	1	1	8
Non-current	12	–	–	12
At 31 January 2015	18	1	1	20

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. These sums are mainly expected to be paid out over the next 7 years however it will take 38 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 £1m (2015: £1m). These items are reviewed and updated annually.

20 Insurance technical provisions

	2016 £m	2015 £m
Outstanding claims provisions	2	2
Other technical provisions – provisions for incurred but not reported claims	2	2
	4	4

Provision is made for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported. The estimated cost of claims includes expenses to be incurred in settling claims.

21 Share capital

	2016 £m	2015 £m
Allotted, called up and fully paid		
608,181,845 (2015: 554,000,001) ordinary shares of £0.001 each	1	1
	1	1

The voting rights of the holders of all ordinary shares are the same and all ordinary shares rank pari passu on a winding up. AA plc has no authorised ordinary share capital.

On 22 April 2015, the Company issued 51,937,501 ordinary shares at a premium of £193m including issue costs.

During the rest of the year, the Company issued 2,244,343 ordinary shares at a premium of £6m in relation to the staff share incentive plans, see note 32.

In the previous year, AA plc issued 24 million Management Value Participation Shares (MVP shares). A further 36 million MVP shares were issued on 22 December 2015. The MVP shares in issue were as follows:

	2016 £000	2015 £000
Allotted, called up and fully paid		
20,000,000 (2015: 8,000,000) MVP A shares of £0.001 each	20	8
20,000,000 (2015: 8,000,000) MVP B shares of £0.001 each	20	8
20,000,000 (2015: 8,000,000) MVP C shares of £0.001 each	20	8
	60	24

The MVP shares have no voting rights. There are 8 million authorised shares in each of the following MVP share classes: A1, B1 and C1. There are 12 million authorised shares in each of the following MVP share classes: A2, B2 and C2. In total, there are 60 million authorised MVP shares. See also note 32.

Notes to the consolidated financial statements continued

22 Reserves

	Share premium £m	Own shares £m	Currency translation reserve £m	Cashflow hedge reserve £m	Retained earnings £m	Total £m
At 1 February 2014	1	-	(1)	(7)	(2,372)	(2,379)
Retained profit for the year	-	-	-	-	69	69
Other comprehensive income:						
Exchange differences on translation of foreign operations	-	-	(1)	-	-	(1)
Remeasurement losses on defined benefit schemes (note 23)	-	-	-	-	(167)	(167)
Tax effect of remeasurement losses on defined benefit schemes (note 7)	-	-	-	-	32	32
Effective portion of changes in fair value of cash flow hedges	-	-	-	(14)	-	(14)
Tax effect of effective portion of changes in fair value of cash flow hedges (note 7)	-	-	-	3	-	3
Issue of shares	202	-	-	-	-	202
Share issue costs	(3)	-	-	-	-	(3)
Share-based payments	-	-	-	-	2	2
At 31 January 2015	200	-	(2)	(18)	(2,436)	(2,256)
Retained profit for the year	-	-	-	-	6	6
Other comprehensive income:						
Exchange differences on translation of foreign operations	-	-	1	-	-	1
Remeasurement gains on defined benefit schemes (note 23)	-	-	-	-	149	149
Tax effect of remeasurement losses on defined benefit schemes (note 7)	-	-	-	-	(26)	(26)
Effective portion of changes in fair value of cash flow hedges	-	-	-	10	-	10
Tax effect of effective portion of changes in fair value of cash flow hedges (note 7)	-	-	-	(2)	-	(2)
Dividends paid	-	-	-	-	(21)	(21)
Purchase of own shares	-	(22)	-	-	-	(22)
Issue of shares	206	-	-	-	-	206
Share issue costs	(7)	-	-	-	-	(7)
Share-based payments	-	-	-	-	5	5
At 31 January 2016	399	(22)	(1)	(10)	(2,323)	(1,957)

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 2016, total dividends of 3.5p per qualifying ordinary share were paid. Dividends are paid from the unconsolidated distributable reserves of AA plc 'the Company'. As at 31 January 2016, the Company had distributable reserves of £495m (2015: £458m). On 4 April 2016 the directors proposed a final dividend of 5.5p per ordinary share (2015: 0p), representing total dividend payments of £55m for the 2016 financial year. Subject to approval by shareholders at the forthcoming AGM, the dividend will be paid on 13 June 2016 and will be accounted for as an appropriation of retained earnings in the 2017 financial year.

23 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 makes an annual deficit reduction contribution of £13m increasing with inflation, over a period of up to 25 years from 29 November 2013 secured on the Group's brands. 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 2016 by independent qualified actuaries.

The Group expects to pay £25m of on-going employer contributions and £13m of deficit reduction employer contributions to its defined benefit plans (AAUK and AAI) in the year ending 31 January 2017.

The amounts recognised in the balance sheet are as follows:

	As at 31 January 2016			
	AAUK £m	AAI £m	AAPMP £m	Total £m
Present value of the defined benefit obligation in respect of pension plans	(2,053)	(46)	(47)	(2,146)
Fair value of plan assets	1,815	35	–	1,850
Deficit	(238)	(11)	(47)	(296)

	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	(2,178)	(51)	(49)	(2,278)
Fair value of plan assets	1,809	35	–	1,844
Deficit	(369)	(16)	(49)	(434)

The decrease in the deficit is mainly due to changes in financial assumptions, mostly from a rise in the discount rates in all of the schemes. This has been partially offset by a loss on assets.

Notes to the consolidated financial statements continued

23 Pensions (continued)

	Assets £m	Liabilities £m	Income statement £m	Statement of comprehensive income £m
Balance at 1 February 2015	1,844	(2,278)	-	-
Current service cost	-	(34)	(34)	-
Past service cost	-	(2)	(2)	-
Interest on defined benefit scheme assets/(liabilities)	56	(68)	(12)	-
Amounts recognised in the income statement	56	(104)	(48)	-
Effect of changes in financial assumptions	-	185	-	185
Effect of experience adjustment	-	1	-	1
Return on plan assets excluding interest income	(37)	-	-	(37)
Amounts recognised in the statement of comprehensive income	(37)	186	-	149
Foreign exchange loss	-	(1)	-	(1)
Contribution from scheme participants	1	(1)	-	-
Benefits paid from scheme assets	(52)	52	-	-
Ongoing employer contributions	24	-	-	-
Deficit reduction employer contributions	14	-	-	-
Movements through cash	(13)	51	-	-
Balance at 31 January 2016	1,850	(2,146)	-	-

A redundancy exercise was carried out during the 2016 financial year which affected 28 members of the AAUK Scheme. Under the terms of the AAUK Scheme the members were entitled to enhanced pension benefits upon redundancy and the impact of this was a past service cost of £2m (2015: nil) in relation to the AAUK scheme.

	Assets £m	Liabilities £m	Income statement £m	Statement of comprehensive income £m
Balance at 1 February 2014	1,580	(1,846)	-	-
Current service cost	-	(27)	(27)	-
Interest on defined benefit scheme assets/(liabilities)	68	(79)	(11)	-
Amounts recognised in the income statement	68	(106)	(38)	-
Effect of changes in financial assumptions	-	(373)	-	(373)
Effect of experience adjustment	-	(3)	-	(3)
Return on plan assets excluding interest income	209	-	-	209
Amounts recognised in the statement of comprehensive income	209	(376)	-	(167)
Foreign exchange (loss)/gain	(3)	5	-	2
Contribution from scheme participants	1	(1)	-	-
Benefits paid from scheme assets	(46)	46	-	-
Ongoing employer contributions	21	-	-	-
Deficit reduction employer contributions	14	-	-	-
Movements through cash	(10)	45	-	-
Balance at 31 January 2015	1,844	(2,278)	-	-

23 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, 26.6% (2015: 22.0%) of assets do not have a quoted market price

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

	2016		2015	
	Assets with a quoted market price £m	Assets without a quoted market price £m	Assets with a quoted market price £m	Assets without a quoted market price £m
Equities	136	264	237	206
Bonds	667	122	731	113
Property	79	172	67	132
Hedge funds	-	356	-	305
Cash/net current assets	17	1	15	3
Total plan assets	899	915	1,050	759
Actual return on AAUK plan assets	18		272	

Pension plan assumptions

The principal actuarial assumptions were as follows

	AAUK		AAI		AAPMP	
	2016 %	2015 %	2016 %	2015 %	2016 %	2015 %
Pensioner discount rate	3.6	2.9	1.7	1.2	3.6	2.9
Non pensioner discount rate	3.8	3.2	2.6	2.0	3.8	3.2
Pensioner RPI	2.9	2.6	-	-	2.9	2.6
Non pensioner RPI	3.2	2.9	-	-	3.2	2.9
Rate of increase of pensions in payment – pensioner	2.8	2.5	-	-	-	-
Rate of increase of pensions in payment – non pensioner	3.0	2.7	-	-	-	-
Pensioner increase for deferred benefits	2.2	1.9	1.5	1.5	-	-
Medical premium inflation rate	-	-	-	-	6.9	6.6

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

Notes to the consolidated financial statements continued

23 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 50% of interest rate risk and 74% 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 2016		
	AAUK £m	AAI £m	AAPMP £m
Increase of 0.25% in discount rate	108	2	2
Increase of 0.25% in inflation rate	(97)	(1)	-
Increase of 1% in medical claims inflation	-	-	(7)
Increase of one year of life expectancy	(59)	(1)	-

An equivalent decrease in the assumptions at 31 January 2016 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 2016 is 22 years

24 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

	2016 £m	2015 £m
Roadside Assistance	874	874
Insurance Services	240	240
Driving Schools	26	26
DriveTech	33	33
Ireland	26	26
	1,199	1,199

The Group has performed impairment testing at 31 January 2016 and 31 January 2015. 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 2019 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 9.9% (2015: 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.

25 Financial assets and financial liabilities

The carrying amount of all financial assets and financial liabilities by class are as follows

Financial assets

	2016 £m	2015 £m
Measured at fair value through other comprehensive income		
Interest rate swaps used for hedging	-	21
Loans and receivables		
Cash and cash equivalents	166	302
Trade receivables	146	156
Other receivables and accrued income	17	18
Total financial assets	329	497

Financial liabilities

	2016 £m	2015 £m
Measured at fair value through other comprehensive income		
Interest rate and fuel swaps used for hedging	27	50
Loans and borrowings		
Trade payables	110	114
Other payables	66	64
Obligations under finance lease agreements	61	51
Borrowings	2,893	3,191
Total financial liabilities	3,157	3,470

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 measurement.

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 and fuel swaps and loan notes.

Notes to the consolidated financial statements continued

25 Financial assets and financial liabilities (continued)

The carrying values of all other financial assets and liabilities (including the Senior Term Facility) are approximate to their fair values

At 31 January 2016.

	Carrying value £m	Quoted prices in active markets (Level 1) £m	Fair value measurement using	
			Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
Financial liabilities measured at fair value				
Interest rate and fuel swaps (note 17)	27	-	27	-
Liabilities for which fair values are disclosed				
Loan notes (note 18)	2,441	2,528	-	-

At 31 January 2015

	Carrying value £m	Quoted prices in active markets (Level 1) £m	Fair value measurement using	
			Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
Financial assets measured at fair value				
Interest rate swaps (note 14)	21	-	21	-
Financial liabilities measured at fair value				
Interest rate swaps (note 17)	50	-	50	-
Liabilities for which fair values are disclosed				
Loan notes (note 18)	2,530	2,861	-	-

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 2016

26 Financial risk management objectives and policies

The Group's principal financial liabilities comprise borrowings as well as trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include deposits with financial institutions, money market funds and trade receivables.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks, supported by the Group Treasury function. The Group Treasury function ensures that the Group's financial risks are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. All derivative activities are for risk management purposes and are carried out by the Group Treasury function. It is the Group's policy not to trade in derivatives for speculative purposes.

The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in prices set by the market. The key market risk that the Group is exposed to is interest rate risk. The Group has policies and limits approved by the Board for managing the interest rate risk exposure. The Group's policy is to fully hedge all of its exposure to variable interest rates. The Group has therefore taken out interest rate swaps to the value of its variable rate instruments.

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

	2016 £m	2015 £m
Fixed rate instruments		
Financial liabilities	(2,502)	(2,581)
Effect of interest rate swaps	(454)	(663)
Net exposure to fixed rate instruments	(2,956)	(3,244)
Variable rate instruments		
Financial liabilities	(452)	(660)
Effect of interest rate swaps	454	663
Net exposure to variable rate instruments	2	3

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 2016 would have increased equity by £4m (2015: £9m) and had no impact on profit or cash. A decrease to interest rates of the same magnitude will have an equal and opposite effect on equity and profit. This calculation assumes that the change occurred at the year end and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables remain constant and considers the effect of financial instruments with variable interest rates and the fixed rate element of interest rate swaps. The analysis is performed on the same basis for all comparative periods.

Notes to the consolidated financial statements continued

26 Financial risk management objectives and policies (continued)

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk in relation to its financial assets, outstanding derivatives and trade and other receivables. The Group assesses its counterparty exposure in relation to the investment of surplus cash and undrawn credit facilities. The Group primarily uses published credit ratings to assess counterparty strength and therefore to define the credit limit for each counterparty, in accordance with approved treasury policies.

The credit risk for the Group is limited as payment from customers is generally required before services are provided.

Credit risk in relation to deposits and derivative counterparties is managed by the Group's treasury function in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. The limits are set to mitigate financial loss through any potential counterparty failure.

The Group's maximum exposure to credit risk for the components of the statement of financial position at each reporting date is the carrying amount except for derivative financial instruments. The Group's maximum exposure for financial derivative instruments is noted under liquidity risk.

The ageing analysis of trade receivables is as follows:

	Past due but not impaired				
	Total £m	Neither past due nor impaired £m	< 30 days £m	30 – 60 days £m	60+ days £m
2016	146	136	2	2	6
2015	156	143	5	2	6

The movements in the provision for the collective impairment of receivables are as follows:

	2016 £m	2015 £m
At start of year	2	4
Charge for the year	1	1
Utilised	–	(2)
Unused amounts reversed	(1)	(1)
At end of year	2	2

26 Financial risk management objectives and policies (continued)**Liquidity risk**

Liquidity risk is the risk that the Group either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure them only at excessive cost. The Group's approach to managing liquidity risk is to evaluate current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and headroom on its working capital facilities.

The table below analyses the maturity of the Group's financial liabilities on a contractual undiscounted cash flow basis and includes any associated debt service costs. The analysis of non-derivative financial liabilities is based on the remaining period at the reporting date to the contractual maturity date.

At 31 January 2016

	On demand £m	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	over 5 years £m	Total £m
Loans and borrowings	-	138	140	1,990	1,436	3,704
Obligation under finance leases	-	43	14	8	-	65
Other payables and accruals	-	66	-	-	-	66
Trade payables	-	110	-	-	-	110
	-	357	154	1,998	1,436	3,945

Interest rate swaps used for hedging

Assets (inflow)	-	(9)	(3)	-	-	(12)
Liabilities	-	16	8	5	-	29
	-	7	5	5	-	17
	-	364	159	2,003	1,436	3,962

At 31 January 2015

	On demand £m	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	over 5 years £m	Total £m
Loans and borrowings	-	182	185	2,692	1,183	4,242
Obligation under finance leases	-	38	10	5	2	55
Other payables and accruals	-	64	-	-	-	64
Trade payables	-	114	-	-	-	114
	-	398	195	2,697	1,185	4,475

Interest rate swaps used for hedging

Assets (inflow)	-	(6)	-	(14)	-	(20)
Liabilities	-	13	3	14	-	30
	-	7	3	-	-	10
	-	405	198	2,697	1,185	4,485

Notes to the consolidated financial statements continued

26 Financial risk management objectives and policies (continued)

Capital management

As noted in the financial review on pages 20 to 23, the Group considers its capital to be a combination of net debt and equity

Total net debt	2,809
Equity (Valued at market close on 29 January 2016)	1,790
Total capital	4,599

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

The relative priorities of these objectives are discussed on page 22 of the financial review

The Group monitors capital using net debt to Trading EBITDA ratios. The key ratios are Senior Secured Debt to Trading EBITDA, Net Debt excluding PIK notes to Trading EBITDA and Net Debt to Trading EBITDA as calculated below

	2016 £m	2015 £m
Senior Term Facility	454	663
Class A notes	1,725	1,725
Less: AA Intermediate Co Limited group cash and cash equivalents	(94)	(262)
Net Senior Secured Debt ¹	2,085	2,126
Class B2 notes	735	655
Finance lease obligations	61	51
Net Debt excluding PIK notes ²	2,881	2,832
PIK notes	-	175
Less: AA plc group cash and cash equivalents ³	(72)	(40)
Total Net Debt	2,809	2,967
Net debt ratio⁴	6.8x	6.9x
Class B2 Leverage ratio⁵	6.9x	6.6x
Senior leverage ratio⁶	5.0x	4.9x

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

2 Principal amounts of the Senior Term Facility, Class A notes, Class B2 notes and finance leases less AA Intermediate Co Limited group cash and cash equivalents

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

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

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

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

The Senior Term Facility, Class A notes and Class B2 notes have interest cover covenants attached to them. The Group was in compliance with all covenants throughout the period and as at 31 January 2016.

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 15). There are no other externally imposed capital requirements.

Further details on our policies and processes for managing capital as well as the thresholds set for the covenants above are set out in the financial review on pages 20-23.

Further details of our objectives to reduce Group borrowings are set out in the strategic report on page 18.

27 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	
	2016 £m	2015 £m
Leases expiring		
Within one year	–	2
Between one and five years	11	13
After five years	28	30
	39	45
Income from operating sub-leases	(4)	(6)
Amounts included in onerous lease provisions	(6)	(8)
	29	31

Where a property is no longer used by the Group for operational purposes, tenants are sought to reduce the Group's exposure to lease payments. Where the future minimum lease payments are in excess of any expected rental income due, a provision is made.

Finance lease commitments

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

	2016		2015	
	Present value of payments £m	Minimum payments £m	Present value of payments £m	Minimum payments £m
Within one year	40	43	35	38
Between one and five years	21	22	16	17
Total minimum lease payments	61	65	51	55
Less amounts representing finance charge	–	(4)	–	(4)
Present value of minimum lease payments	61	61	51	51

Commitments

Amounts contracted for but not provided in the financial statements amounted to £15m (2015: £5m).

Notes to the consolidated financial statements continued

28 Subsidiary undertakings

The subsidiary undertakings of AA plc, all of which are wholly owned except where stated, are listed in note 9 of the Company financial statements

29 Auditor's remuneration

	2016 £m	2015 £m
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	1	1
Corporate finance services	1	2

The fee for the audit of these financial statements was £0.2m (2015: £0.2m)

Corporate finance services mainly relate to reporting accountant work that would normally be undertaken by the auditor

30 Related party transactions

The following table provides the total value of transactions that have been entered into with associates during each financial year

Transactions with associates:

Associate	Nature of transaction	2016 £m	2015 £m
A C T A S A	Call handling fees paid	2	2
A R C Europe S A	Registration fees paid	1	1

31 Compensation of key management personnel of the Group

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group

Key management personnel consists of the Executive Chairman, Chief Financial Officer, Non Executive Directors and the Executive Committee. With effect from 1 August 2015, the Executive Committee was restructured reducing key management personnel from 27 to 13. The new Executive Committee is shown on pages 48 and 49.

The LTBP shares are granted to members of senior management who do not meet the definition of key management personnel.

The amounts recognised as an expense during the financial year in respect of key management personnel are as follows:

	2016 £m	2015 £m
Short-term employee benefits	6	6
Share-based payments – MVP shares	2	1
Termination payments	-	2
Total compensation paid to key management personnel	8	9

32 Share-based payments

	2016 £m	2015 £m
Share-based payments – MVP shares	2	1
Share-based payments – LTBP	2	–
Share-based payments – staff share incentive plan	1	1
	5	2

Management value participation shares (MVP shares)

On 23 June 2014, the Company issued 24 million convertible, redeemable MVP shares to Executive Directors at £0.001 per share. These shares were divided into three classes and are convertible into ordinary shares following satisfaction of a Total Shareholder Return (TSR) performance condition of 12% per annum compound growth against the admission price of £2.50 which is tested on the third, fourth and fifth anniversaries of admission to the London Stock Exchange.

A further 36 million MVP shares were issued at £0.001 per share on 22 December 2015.

The MVP share-based payments are equity settled. The following table illustrates the number and fair value of the MVP shares.

	Vesting date	2016 No of shares	2015 No of shares	2016 Fair value per share £	2015 Fair value per share £
A1 shares	23 June 2017	8,000,000	8,000,000	0.25	0.25
B1 shares	23 June 2018	8,000,000	8,000,000	0.26	0.26
C1 shares	23 June 2019	8,000,000	8,000,000	0.26	0.26
A2 shares	23 June 2017	12,000,000	–	0.38	–
B2 shares	23 June 2018	12,000,000	–	0.40	–
C2 shares	23 June 2019	12,000,000	–	0.40	–
Total		60,000,000	24,000,000		

The A1 and A2 shares can also be converted on the 4th or 5th anniversary of admission and the B1 and B2 shares can also be converted on the 5th anniversary of admission.

All MVP shares 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 for A1, B1 and C1 MVP shares	0.88	1.35	1.82
Risk-free interest rate for A2, B2 and C2 MVP shares	0.55	0.77	0.98

The expected volatility reflects the assumption that the historical volatility is indicative of future trends which may not necessarily be the actual outcome.

Notes to the consolidated financial statements continued

32 Share-based payments (continued)

Long Term Bonus Plan (LTBP)

On 13 August 2015, the Company issued 3 million awards over market purchased conditional ordinary shares, held by an employee benefit trust, to certain key members of senior management at nil cost. A further 1 million conditional ordinary shares were issued on 16 November 2015. Executive Directors are not eligible to participate in the LTBP.

These awards were divided into three tranches, A, B and C and vest 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 3rd, 4th and 5th anniversaries of admission to the London Stock Exchange and satisfaction of certain individual performance targets.

The LTBP share-based payments are equity settled. The following table illustrates the number and fair value of the LTBP shares.

	Vesting date	No. of shares	2016 Fair value per share £
August 2015 awards			
A shares	26 June 2017	1,010,219	2.93
B shares	26 June 2018	1,010,219	2.39
C shares	26 June 2019	1,010,219	1.88
November 2015 awards			
A shares	26 June 2017	247,104	1.43
B shares	26 June 2018	247,104	1.12
C shares	26 June 2019	247,104	0.83
Total		3,771,969	

If the awards do not vest on the 3rd or 4th anniversary of admission, then they are retested on the 4th and/or 5th anniversary respectively.

The shares issued in August 2015 were valued using a Monte Carlo simulation model and 20% 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 (%)	0.70	0.72	1.00

The shares issued in November 2015 were valued using a Monte Carlo simulation model and 24% 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 (%)	0.58	0.79	0.99

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

The Group has a number of Share Incentive Plans (SIP).

Under the SIP, employees are able to buy Partnership shares by making weekly or monthly payments into the SIP.

In addition, for every Partnership share an employee purchases, the Company will match this on a 1:1 basis (Matching Shares).

32 Share-based payments (continued)

Staff share incentive plans (continued)

The SIP share-based payments are equity settled. The following table illustrates the fair value and vesting period of the SIPs

Share type	Award date	Vesting date	No. of shares ¹	Volatility %	Risk free interest rate %	Fair value per share £	Charge for year ended 31 January 2016 £m	Charge for year ended 31 January 2015 £m
2015 SIP								
Partnership shares	29 August 2014	29 August 2015	2,132,766	21	0.55	0.23	–	–
Matching shares	29 August 2014	29 August 2018	2,132,766	21	0.55	2.58	1	1
2016 SIP								
Matching shares	11 January 2016	11 January 2019	111,577	26	0.76	2.93	–	–
			4,377,109				1	1

¹ The number of shares shown above is the estimated number as at 31 January 2016

The SIPs are valued using a Black Scholes model

The expected volatility reflects the assumption that the historical volatility is indicative of future trends which may not necessarily be the actual outcome

33 Ultimate parent undertaking and controlling party

AA plc is the ultimate controlling party and parent undertaking of the Group

34 Accounting standards, amendments and interpretations

New accounting standards, amendments and interpretations adopted in the year

In the year ended 31 January 2016 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
IAS 19 Defined Benefit Plans – employee contributions	1 July 2014
Annual Improvements to IFRS 2010–2012, 2011–2013	1 July 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 2015

	Effective date
IAS 1 Disclosure Initiative	1 January 2016
Annual Improvements to IFRS 2012–2014	1 January 2016
IFRS 11 Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
IAS 12 Recognition of Deferred Tax assets for unrealised losses	1 January 2017
IAS 7 Disclosure Initiative	1 January 2017
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 9 Financial Instruments	1 January 2018
IFRS 16 Leases	1 January 2019

The Group is currently assessing whether the above standards will have a material impact on the financial statements for the year ended 31 January 2017

35 Events after the reporting period

On 16 March 2016 the Chancellor presented the 2016 budget in which he announced a reduction in the future corporation tax rate. Instead of the corporation tax rate reducing from 19% to 18%, on 1 April 2020, the rate will now fall to 17%. As the new rate of 17% was not substantively enacted at the balance sheet date the impact of this reduction has not been reflected in the deferred tax calculations. The effect of this rate reduction would be to reduce the carrying value of the deferred tax asset in the balance sheet by £2m

Company statement of financial position

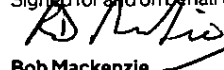
as at 31 January

	Notes	2016 £m	2015 £m
Non-current assets			
Investment in subsidiaries	2	806	799
Investment in joint ventures	3	4	-
		810	799
Current assets			
Trade and other receivables	4	14	4
Cash at bank and in hand	5	59	33
		73	37
Total assets		883	836
Current liabilities			
Trade and other payables	6	(9)	(176)
Non-current liabilities			
Other payables	7	(1)	(1)
Total liabilities		(10)	(177)
Net assets		873	659
Equity			
Called up share capital	8	1	1
Share premium		399	200
Own shares		(22)	-
Retained earnings		495	458
Total equity attributable to equity holders of the parent		873	659

The profit for the financial year of the Company is £51m (2015 loss of £44m)

As at 31 January 2016, the Company has distributable reserves of £495m (2015 £458m)

Signed for and on behalf of the Board on 4 April 2016 by


Bob Mackenzie
Executive Chairman


Martin Clarke
Chief Financial Officer

The accompanying notes are an integral part of this company balance sheet

Company statement of changes in equity

	Share capital £m	Share premium £m	Own shares £m	Retained earnings £m	Total £m
At 1 February 2014	1	1	-	502	504
Profit for the year	-	-	-	(44)	(44)
Issue of share capital	-	199	-	-	199
At 31 January 2015	1	200	-	458	659
Profit for the year	-	-	-	51	51
Dividends	-	-	-	(21)	(21)
Issue of share capital	-	199	-	-	199
Purchase of own shares	-	-	(22)	-	(22)
Share-based payments	-	-	-	7	7
At 31 January 2016	1	399	(22)	495	873

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

Notes to the Company financial statements

1 Authorisation of financial statements and Company accounting policies

1.1 Authorisation of financial statements

The parent company financial statements of AA plc (the "Company") for the year ended 31 January 2016 were authorised for issue by the board of directors on 4 April 2016 and the balance sheet was signed on the Board's behalf by Bob Mackenzie and Martin Clarke. AA plc is a public limited company incorporated and domiciled in England and Wales and the Company registration number is 5149111. The Company's ordinary shares are traded on the London Stock Exchange.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS101). The financial statements are prepared under the historical cost convention. There were no material measurement or recognition adjustments on the adoption of FRS101.

No profit and loss account is presented by the Company as permitted by Section 408 of the Companies Act 2006.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 January 2016. The financial statements are prepared in Sterling and are rounded to the nearest million pounds (£m). These financial statements are prepared on the going concern basis.

1.2 Basis of preparation

The Company has transitioned to FRS 101 from previously extant UK Generally Accepted Accounting Practice for all periods presented. The Company has adopted FRS 101 early which is permitted under the Standard. The Company has early adopted SI 2015/980.

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

- > IAS 1 paragraph 10(d) (statement of cash flows),
- > IAS 1 paragraph 16 (statement of compliance with all IFRS),
- > IAS 1 paragraph 38A (requirement for minimum of two primary statements, including cash flow statements),
- > IAS 1 paragraph 111 (cash flow statement information),
- > IAS 1 paragraphs 134-136 (capital management disclosures),
- > IFRS 1 paragraphs 6 and 21,
- > Paragraphs 45(b) and 46 to 52 of IFRS 2 'Share-based payment',
- > IAS 7 'Statement of cash flows',
- > IFRS 7 'Financial Instruments: Disclosures',
- > IAS 8 paragraphs 30 and 31,
- > The requirements in IAS 24 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

1.3 Accounting policies

a) 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.

b) Investments in subsidiaries and joint ventures

Fixed asset investments are included in the balance sheet at cost, less any provisions for permanent impairment.

Investments in subsidiaries and joint ventures 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.

Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

c) 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.

1 Authorisation of financial statements and Company accounting policies (continued)

1.3 Accounting policies (continued)

d) Critical accounting estimates and judgements

Estimates are evaluated continually and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The 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.

Management have exercised judgement in applying the Group's accounting policies and in making critical estimates. The underlying assumptions on which these judgements are based, are reviewed on an on-going basis and include the assumptions for future growth of cash flows to support the value-in-use calculations for the investment impairment review.

Investments

The Group assesses for indicators of impairment in the investment balances annually. Where indicators exist the recoverable amounts of the investments are determined based on value-in-use calculations which require the use of estimates.

2 Investments in subsidiaries

	2016 £m	2015 £m
At 1 February	799	800
Charge for the share incentive schemes	7	–
Adjustment to prior year acquisitions	–	(1)
At 31 January	806	799

The increase in investment in subsidiaries of £7m in the year relates to the fair value of share-based payments granted to a subsidiary undertaking. £5m of the charge relates to the shares granted in the current year and £2m relates to the shares granted in the prior year. Details are provided in note 32 of the Group financial statements.

In the year ended 31 January 2015, the investment in VVCR Europe Holding B.V. was adjusted by £1m reflecting the lower amount of deferred consideration now expected to be paid.

No indicators of impairment in the value of investments in subsidiaries have been identified.

3 Investments in joint ventures

	2016 £m	2015 £m
At 1 February	–	–
Additions	4	–
At 31 January	4	–

On 29 June 2015, the Company invested £4m in a 49% share of a joint venture with TVS Automobile Solutions, one of the largest players in the Indian automotive market.

4 Trade and other receivables

	2016 £m	2015 £m
Trade receivables from subsidiary undertakings	13	–
Group relief receivables	1	4
	14	4

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

Notes to the Company financial statements continued

5 Cash

	2016 £m	2015 £m
Cash – unrestricted	59	14
Cash – restricted	–	19
	59	33

Cash – restricted includes £nil (2015: £19m) held as pre-funded interest to cover interest payments on the PIK notes held by subsidiary undertakings and could not be used for any other purpose. The PIK notes were repaid during the 2016 financial year.

6 Trade and other payables

	2016 £m	2015 £m
Amounts owed to subsidiary undertakings	8	175
Accruals	1	1
	9	176

Amounts owed to subsidiary undertakings are unsecured, have no repayment terms and bear no interest.

In the prior year, the terms of the amounts owed to subsidiary undertakings reflected the terms on the PIK notes held by a subsidiary undertaking. These amounts were unsecured, had an interest rate of 9.5% and were repayable on 6 November 2019. The PIK notes were repaid in full during the 2016 financial year.

7 Other payables

	2016 £m	2015 £m
Other payables	1	1

All amounts are due within five years.

8 Share capital

	2016 £m	2015 £m
Allotted, called up and fully paid		
608,181,845 (2015: 554,000,001) ordinary shares of £0.001 each	1	1
	1	1

The voting rights of the holders of all ordinary shares are the same and all ordinary shares rank *pari passu* on a winding up. AA plc has no authorised ordinary share capital.

On 22 April 2015, the Company issued 51,937,501 ordinary shares at a premium of £193m including issue costs.

During the rest of the year, the Company issued 2,244,343 ordinary shares at a premium of £6m in relation to the staff share incentive plans (see Group financial statements – note 32 for further information on these shares).

36 million MVP shares were issued on 22 December 2015 (see Group financial statements – note 32 for further information on these shares).

9 Subsidiary undertakings

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

The principal subsidiary undertakings of the Company at 31 January 2016 are

Name	Country	Name	Country
AA Acquisition Co Limited	United Kingdom	AA Reinsurance Company Limited ¹	Guernsey
AA Bond Co Limited	Jersey	AA Senior Co Limited	United Kingdom
AA Corporation Limited	United Kingdom	AA The Driving School Agency Limited	United Kingdom
AA Financial Services Limited	United Kingdom	AA Underwriting Insurance Company Limited	Gibraltar
AA Intermediate Co Limited	United Kingdom	Automobile Association Developments Limited	United Kingdom
AA Ireland Limited	Ireland	Automobile Association Insurance Services Limited	United Kingdom
AA Media Limited	United Kingdom	Driveteck(UK) Limited	United Kingdom
AA Mid Co Limited ¹	United Kingdom	Intelligent Data Systems(UK) Limited	United Kingdom
AA PIK Co Limited ¹	Jersey	VVCR Europe B V ¹	Netherlands

The other subsidiary undertakings of the Company at 31 January 2016 are

Name	Country	Name	Country
iStop Travel Insurance Services Limited	United Kingdom	Breakdown Assistance Services Limited	Ireland
A A Insurance Services Limited	United Kingdom	Drakefield Group Limited	United Kingdom
A A Pensions Trustees Limited	United Kingdom	Drakefield Holdings Limited	United Kingdom
AA Assistance Limited	United Kingdom	Drakefield Insurance Services Limited	United Kingdom
AA Brand Management Limited	United Kingdom	Drakefield Services Limited	United Kingdom
AA Insurance Holdings Limited ¹	United Kingdom	Drive Publications Limited	United Kingdom
AA Ireland Pension Trustees Limited	Ireland	Driveteck Advantage Agency Limited	United Kingdom
AA J Quartz Limited	United Kingdom	Driving Services UK Limited	United Kingdom
AA Legal Services Limited	United Kingdom	E Travel Insurance Services Limited	United Kingdom
AA Parking Solutions Limited	United Kingdom	Fanum Services Limited	United Kingdom
AA Pension Funding GP Limited	United Kingdom	Go Insurance Services Limited	United Kingdom
AA Pension Funding LP	United Kingdom	Go Travel Insurance Services Limited	United Kingdom
AA Road Services Limited	United Kingdom	Intelematics Europe Limited	United Kingdom
AA Signs Limited	United Kingdom	Longacre Claims Limited	United Kingdom
AA Technical Solutions Limited	United Kingdom	Nationwide 4 X 4 Ltd	United Kingdom
AA Underwriting Limited	United Kingdom	Peak Performance Management Limited	United Kingdom
Automobile Association Commercial Services Limited	United Kingdom	Personal Insurance Mortgages and Savings Limited	United Kingdom
Automobile Association Holdings Limited	United Kingdom	Quotebanana Limited	United Kingdom
Automobile Association Insurance Services Holdings Limited	United Kingdom	The Automobile Association Limited	Jersey
Automobile Association Protection and Investment Planning Limited	United Kingdom	The British School of Motoring Limited	United Kingdom
Automobile Association Services Limited	United Kingdom	Tourist Accommodation Management Services Limited	Ireland
Automobile Association Travel Services Limited	United Kingdom	VVCR Europe Beroepsopleidingen B V	Netherlands
Automobile Association Underwriting Services Limited	United Kingdom	VVCR Europe Holding B V	Netherlands

¹ Directly owned by AA plc. all other subsidiaries are indirectly held

10 Auditor's remuneration

The fee for the audit of these financial statements was £0.2m (2015: £0.2m)

11 Staff costs

The Company had no employees or employee staff costs in the current or prior year. However, the Company has incurred costs in respect of the non-executive directors of £1m (2015: nil)

Shareholder Information

AA plc

Company number 5149111

Registered office

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Basingstoke
Hampshire
RG21 4EA

Telephone 0370 544 8866

Share price information

The Company's ordinary shares are listed on the London Stock Exchange. Share price information can be found on the website www.theaapl.com

ISIN Number GB00BMSKPJ95

SEDOL Number BMSKRPJ9

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Liberum Capital, Ropemaker Place, Level 12, 25 Ropemaker Street, London, EC2Y 9LY
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Auditors

Ernst & Young LLP, 1 More London Place, London SE1 2AF

Registrar

Capita Asset Services 40 Dukes Place, London EC3A 7NH
Telephone 0871 664 0300 (calls cost 10p per minute plus network extras) Lines are open Monday – Friday, 9 00am – 5 30pm (from outside the UK +44 (0) 208 639 3399)

Financial public relations

Headland Consultancy, Eldon House, 2-3 Eldon Street, London EC2M 7LS

Financial Calendar

The Company's Annual General Meeting will be held on 9 June 2016 at King & Wood Mallesons LLP, 10 Queen Street Place, London, EC4R 1BE

Warning to Shareholders

Share fraud includes scams where investors are called and offered shares that often turn out to be worthless or non-existent, or an inflated price for shares that they own. These calls often require you to make a quick decision and come from fraudsters operating in 'boiler rooms' that are often based abroad. High pressure sales tactics can also come by email, post, word of mouth or at a seminar. Scams are also advertised in newspapers, magazines or online and appear as if they are genuine investment opportunities.

In addition, be aware of money recovery scams which can be initiated by someone claiming to be from the police or a government agency. Organisations' names vary but can include the National Fraud Intelligence Bureau and the US Securities & Exchange Commission. You should check the latest information on the Financial Conduct Authority (FCA) website at www.fca.org.uk/consumers/scams/what-to-do-if-you-are-scammed for more details of scams pretending to be the police or a government agency.

The FCA found that even experienced investors have been caught out by share fraud and on average, around £200 million is lost in the UK each year.

If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should take these steps before handing over any money:

- 1 Get the name of the person and organisation contacting you
- 2 Check the Financial Services Register (FSR) at www.fca.org.uk/firms/systems-reporting/register to ensure they are authorised
- 3 Use the details on the FSR to contact the firm
- 4 If you are based in the UK, call the FCA Consumer Helpline on 0800 111 6768 if there is no telephone number on the FSR or you are told it is out of date
- 5 Search the FCA's list of known unauthorised firms and individuals to avoid doing business with
- 6 Remember that law enforcement and other agencies will not contact members of the public asking for their bank details or money
- 7 Remember if it sounds too good to be true, it probably is

If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme (FSCS) if things go wrong. If you are approached about a share scam you should tell the FCA using the share fraud reporting form at www.fca.org.uk/consumers/scams, where you can find out about the latest investment scams. If you are based in the UK, you can also call the FCA Consumer Helpline on 0800 111 6768. If you have already paid money to share fraudsters you should contact Action Fraud online at www.actionfraud.police.uk or, if you are based in the UK, by telephone on 0300 123 2040.

Shareholder queries and information

Financial information about the company including the annual report, regulatory announcements and corporate governance information is available on our website www.theaapl.com

Alternatively please contact us at investorrelations@theaa.com



Designed and produced by Friend www.friendstudio.com
Print: Pureprint Group

This report has been printed on Claro Bulk which is FSC® certified and made from 100% Elemental Chlorine Free (ECF) pulp. The mill and the printer are both certified to ISO 14001 environmental management system and registered to EMAS the eco management Audit Scheme. The report was printed using vegetable based inks by a CarbonNeutral® printer.

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