Consolidated income statement

for the year ended 31 January

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

Earnings per share from profit for the year		**2015 pence**	2014 pence
Basic	9	**13.3**	32.7
Diluted	9	**13.3**	32.7

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

Consolidated statement of comprehensive income

for the year ended 31 January

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

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

Consolidated statement of financial position

as at 31 January

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

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

Bob Mackenzie
Executive Chairman

Martin Clarke
Chief Financial Officer

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

Consolidated statement of changes in equity

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

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

Consolidated statement of cash flows

for the year ended 31 January

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

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

Notes to the consolidated financial statements

1 Basis of preparation

1.1 General information

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

1.2 Accounting policies

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

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

The principal accounting policies are set out below.

a) Going concern

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

b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has rights to variable returns from its involvement with the entity and has the ability to influence those returns through its power over the entity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

c) Interests in joint ventures and associates

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

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

d) Foreign currencies

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

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

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

e) Business combinations and goodwill

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

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

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

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

Notes to the consolidated financial statements continued

1 Basis of preparation continued

1.2 Accounting policies continued

f) Intangible assets

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

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

g) Software and development costs

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

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

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

h) Property, plant and equipment

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

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

These lives are as follows:

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

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

i) Inventories

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

j) Financial instruments

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

Trade receivables and trade payables

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

Cash and cash equivalents

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

Debt instruments

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

1 Basis of preparation continued

1.2 Accounting policies continued

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

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

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

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

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

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

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any allocated goodwill and then to reduce the carrying amounts of the other assets on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

l) Leases
Finance leases transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is shown as a financial liability. Lease payments are apportioned between finance charges and the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement.

Rentals payable and receivable under operating leases are charged, or credited, to the income statement on a straight-line basis over the term of the relevant lease term. Any incentives to enter into an operating lease are recognised evenly over the lease term.

m) Provisions
A provision is required when the Group has a present legal or constructive obligation as a result of a past event and it is probable that settlement will be required of an amount that can be reliably estimated. Provisions are discounted where the impact is material.

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

For property leases, where a decision has been made prior to the year end to permanently vacate the property, provision is made for future rent and similar costs net of any rental income expected to be received up to the estimated date of final disposal.

Notes to the consolidated financial statements continued

1 Basis of preparation continued

1.2 Accounting policies continued

n) Retirement benefit obligation

The Group's position in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Group determines the net interest on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability.

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA with maturity dates approximating the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses and the return on plan assets (excluding interest). The Group recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in administrative and marketing expenses in profit or loss.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

For defined contribution schemes, the amounts recognised in profit or loss are the contributions payable in the year.

o) Revenue recognition

Revenue is measured at the fair value of the consideration receivable less any discounts and excluding, value added tax and other sales related taxes.

Roadside membership subscriptions and premiums receivable on underwritten insurance products are apportioned on a time basis over the period where the Group is liable for risk cover. The unrecognised element of subscriptions and premiums receivable, relating to future periods, is held within liabilities as deferred income.

Commission income from insurers external to the Group is recognised at the commencement of the period of risk.

Where customers choose to pay by instalments, the Group charges interest based on the principal outstanding and disclosed interest rate and recognises this income over the course of the loan.

For all other revenue, income is recognised at point of delivery of goods or on provision of service. This includes work which has not yet been fully invoiced, provided that it is considered to be fully recoverable.

p) Insurance contracts

An insurance contract is a contract under which insurance risk is transferred to the issuer of the contract by another party. The Group accepts insurance risk from its customers under roadside recovery service contracts by agreeing to provide services whose frequency and cost is uncertain. Claims and expenses arising from these contracts are recognised in profit or loss as incurred.

At the balance sheet date, a liability adequacy test is performed to ensure the adequacy of the insurance contract liabilities. In performing these tests, current estimates of future cash outflows arising under insurance contracts are considered and compared with the carrying amount of deferred income and other insurance contract liabilities. Any deficiency is immediately recognised in profit or loss and an onerous contract provision is established.

The estimation of the ultimate liability from claims made under insurance contracts is not considered to be one of the Group's most critical accounting estimates. This is because there is a very short period of time between the receipt of a claim, i.e. a breakdown, and the settling of that claim. Consequently there are no significant provisions for unsettled claims costs in respect of the roadside assistance services.

1 Basis of preparation continued

1.2 Accounting policies continued

q) Exceptional items

Exceptional items are events or transactions that fall within the activities of the Group and which by virtue of their size or incidence have been disclosed in order to improve a reader's understanding of the financial statements. See note 4 for further information on the nature of exceptional items.

r) Finance income and costs

Finance costs comprise interest payable, finance charges on finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions (including the net defined benefit obligations), and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy).

Finance income comprises interest receivable on funds invested and net foreign exchange gains.

Foreign currency gains and losses are reported on a net basis.

s) Taxation

Tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

t) Segmental analysis

The Group reports its operations using the segments that are reported for management purposes. Segments are based on business operations because this is where Group risk and return is focussed, with the exception of Ireland which represents the Group's only material operations outside of the UK.

u) Critical accounting estimates and judgements

Estimates and judgements are evaluated continually and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions about the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The principal estimates and assumptions that have a risk of causing an adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

Retirement benefit obligation

The Group's retirement benefit obligation, which is actuarially assessed each period, is based on key assumptions including return on plan assets, discount rates, inflation, future salary and pension costs. These assumptions may be different to the actual outcome.

Derivative financial Instruments

The fair value of derivative financial instruments is determined by reference to market values for similar financial instruments. The Group is therefore required to identify changes in market conditions around expectations for interest rates. These assumptions may be different to the actual outcome.

Notes to the consolidated financial statements continued

2 Segmental information

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

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

	2015 £m	2014 £m
Revenue		
Roadside Assistance	**728.1**	712.5
Insurance Services	**142.4**	148.9
Driving Services	**73.7**	72.6
Ireland	**38.7**	39.6
Insurance Underwriting	**0.6**	0.3
Total revenue	**983.5**	973.9
Trading EBITDA		
Roadside Assistance	**358.9**	348.2
Insurance Services	**83.9**	89.4
Driving Services	**20.4**	15.6
Ireland	**14.8**	15.0
Insurance Underwriting	**(0.1)**	(0.1)
Head Office costs	**(47.8)**	(45.3)
Total Trading EBITDA	**430.1**	422.8
Items not allocated to a segment	**(6.4)**	5.2
Amortisation and depreciation	**(48.3)**	(39.6)
Share-based payments and acquisition earn-out costs	**(1.9)**	(2.2)
Exceptional items	**(47.6)**	(14.6)
Operating profit	**325.9**	371.6
Profit on disposal of joint venture	**–**	0.4
Net finance costs	**(265.1)**	(179.2)
Profit before tax	**60.8**	192.8

With the exception of Ireland, all other segments operate wholly in the UK. Turnover by destination is not materially different from turnover by origin.

During the period the management responsibility for the Group's Media business was transferred from Driving Services to Roadside Assistance. As a result, the above analysis has been restated to show the results from Media within the Roadside Assistance segment for all periods. For the year ended 31 January 2014, Revenue of the Media business was £14.9m and Trading EBITDA was £4.3m.

Segment performance is primarily evaluated using the Group's key performance measure of Trading EBITDA. Trading EBITDA is profit after tax as reported adjusted for depreciation, amortisation, net finance costs, taxation, exceptional items, share-based payments, acquisition earn-out costs, items not allocated to a segment and profit on disposal of joint venture.

Items not allocated to a segment relate to transactions that do not form part of the on-going segment performance and include transactions which are one–off in nature. In the year ended 31 January 2015 these principally relate to the difference between the cash contributions to the pension schemes for on-going service and the calculated annual service cost.

Depreciation, amortisation, profit on disposal of joint venture, exceptional items, share-based payments, acquisition earn-out costs, net finance costs and tax expense are not allocated to individual segments as they are managed on a group basis.

3 Other operating income

	2015 £m	2014 £m
Interest on restricted cash and cash equivalents	**0.4**	0.3
	0.4	0.3

See note 17 for more information on restricted cash balances.

4 Operating profit

Operating profit is stated after charging:

	2015 £m	2014 £m
Amortisation of owned intangible assets	**19.7**	12.1
Depreciation of owned tangible fixed assets	**9.5**	11.5
Depreciation of leased tangible fixed assets	**19.1**	16.0
Operating lease rentals payable – land and buildings	**3.9**	3.3
Operating lease rentals payable – plant and machinery	**6.0**	10.2
Exceptional items	**47.6**	14.6

Exceptional items includes £33.2m relating to the IPO (2014: £nil), £0.5m relating to financing transactions (2014: £13.8m) and £0.3m (2014: £nil) relating to joint ventures. The remaining exceptional items of £13.6m (2014: £0.8m) relate mainly to cost restructuring activities and onerous property lease costs.

5 Finance costs

	2015 £m	2014 £m
Interest on external borrowings	**(210.9)**	(123.7)
Finance charges payable under finance leases	**(4.1)**	(2.8)
Penalties on early repayment of debt	**(3.5)**	–
Total cash finance costs	**(218.5)**	(126.5)
Interest on shareholder loans	**–**	(16.6)
Amortisation of debt issue fees	**(29.6)**	(29.3)
Transfer from cashflow hedge reserve for extinguishment of cashflow hedge	**(7.0)**	–
Net finance expense on defined benefit pension schemes	**(10.7)**	(6.8)
Unwinding of discount and effect of changes in discount rate on provisions	**(0.1)**	(0.2)
Other finance charges	**(0.2)**	(0.1)
Total non-cash finance costs	**(47.6)**	(53.0)
Total finance costs	**(266.1)**	(179.5)

Cash at bank and in hand – restricted (see note 17) includes an amount of pre-funded interest to cover interest payments on the PIK notes until June 2015.

Within interest on external borrowings is £20.7m (2014: £26.0m) of interest charged on the Senior Term Facility and £10.2m (2014: £9.4m) charged in relation to the interest rate swaps used to hedge the variable element of the Senior Term Facility (see note 20).

Shareholder loans were fully repaid on 2 July 2013 and no further interest was incurred after this date.

Amortisation of debt issue fees include £20.7m (2014: £20.3m) that was immediately written off following the repayment of the Senior Term Facility in May 2014 and the repayment of £175.0m of PIK notes in December 2014 (see note 20). In addition, a penalty fee of £3.5m was paid due to the early repayment of £175.0m of the PIK notes.

Following the repayment of the Initial Senior Term Facility in May 2014, the Group has transferred the fair value of the cashflow hedges at that date to the income statement.

Other finance charges mainly relate to exchange differences.

Notes to the consolidated financial statements
continued

6 Finance income

	2015 £m	2014 £m
Interest receivable	**1.0**	0.3
Total finance income	**1.0**	0.3

7 Staff costs

	2015 £m	2014 £m
Wages and salaries	**257.8**	235.9
Social security costs	**24.9**	23.0
Retirement benefit costs	**28.1**	25.8
	310.8	284.7

The average monthly number of persons employed under contracts of service during the year was:

	2015	2014
Operational	**6,876**	6,694
Management and administration	**1,277**	1,455
	8,153	8,149

8 Tax

The major components of the income tax expense are:	**2015 £m**	2014 £m
Consolidated income statement		
Current income tax		
Current income tax charge	**1.4**	1.3
Adjustments in respect of previous years	**–**	0.4
	1.4	1.7
Deferred tax		
Effect of tax rate change on opening balances	**–**	6.5
Relating to origination and reversal of temporary differences – current year	**(9.2)**	32.2
Relating to origination and reversal of temporary differences – prior years	**(0.5)**	(1.0)
	(9.7)	37.7
Tax (credit)/expense in the income statement	**(8.3)**	39.4

	2015 £m	2014 £m
Consolidated statement of comprehensive income		
Tax on the effective portion of changes in fair value of cash flow hedges	**(2.8)**	(1.6)
Tax on remeasurements of defined benefit pension liability	**(32.5)**	(24.5)
Income tax charged directly to other comprehensive income	**(35.3)**	(26.1)

8 Tax continued

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

	2015 £m	2014 £m
Profit before tax	**60.8**	192.8
Tax at rate of 21.3% (2014: 23.2%)	**13.0**	44.7
Movement on unprovided deferred tax	**(22.0)**	(7.4)
Lower rate of foreign tax	**(0.8)**	(0.8)
Adjustments relating to prior years	**(0.5)**	(0.6)
Rate change adjustment on temporary differences	**(1.1)**	2.9
Expenses not deductible for tax purposes:		
– Listing expenses	**3.1**	–
– Other non-deductible expenses/non-taxed income	**–**	0.6
Income tax (credit)/expense reported in the consolidated income statement at effective rate of 18.1% (2014: 20.4%)	**(8.3)**	39.4

Deferred tax by type of temporary difference

	Consolidated statement of financial position		Consolidated income statement	
	2015 £m	2014 £m	2015 £m	2014 £m
Accelerated depreciation for tax purposes	**13.1**	10.9	**(2.2)**	3.0
Revaluations of land and buildings to fair value	**(1.2)**	(1.2)	**–**	(0.2)
Rollover relief	**(2.1)**	(2.1)	**–**	(0.3)
Pension	**41.6**	8.1	**(1.0)**	46.3
Revaluation of cashflow hedges	**5.8**	1.6	**(1.4)**	–
Short-term temporary differences	**2.1**	3.5	**1.4**	1.3
Losses available for offsetting against future taxable income	**22.1**	15.6	**(6.5)**	(12.4)
Deferred tax expense			**(9.7)**	37.7
Net deferred tax assets	**81.4**	36.4		

Reconciliation of net deferred tax assets

	2015 £m	2014 £m
At 1 February	**36.4**	48.0
Tax expense recognised in the income statement	**9.7**	(37.7)
Tax income recognised in OCI	**35.3**	26.1
At 31 January	**81.4**	36.4

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

Deferred tax has been recognised at 20% for the UK at 31 January 2015 (2014: 20%) and 12.5% for Ireland (2014: 12.5%).

The Group has tax losses which arose in the UK of £110.2m (2014: £194.4m) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Following the IPO, a deferred tax asset of £22.0m has been recognised on these tax losses as the Group now expects to have sufficient taxable profits to be able to recover these losses. Excluding the impact of the recognition of this deferred tax asset and the impact of expenses relating to the IPO that are disallowable for tax purposes of £14.7m, the Group's effective tax rate is 18.1% (2014: 20.4%).

Following the asset-backed funding arrangements on the AA UK pension scheme detailed in note 25, there was a £39.5m release of the AA UK pension deferred tax asset during the year to 31 January 2014. The remaining £12.9m of tax relief relating to this transaction was utilised in the year ending 31 January 2015.

Notes to the consolidated financial statements continued

9 Earnings per share

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

	2015	2014
Basic earnings per share:		
Profit after tax (£m)	**69.1**	153.4
Weighted average number of shares outstanding (millions)	**520.1**	469.3
Basic earnings per share (pence)	**13.3**	32.7

Immediately prior to the IPO, the existing share capital of the Company was reorganised to have 469.3 million shares. This had no impact on the overall share capital of the Company and therefore for all periods prior to the IPO, the Company has been deemed to have 469.3 million shares outstanding for the purpose of the earnings per share calculation and the earnings per share figure has been recalculated accordingly.

For diluted earnings per share, the weighted average number of ordinary shares is adjusted to assume conversion of all dilutive potential ordinary shares. As at 31 January 2015 the Group has only one class of dilutive potential ordinary shares being the employee staff scheme for the UK (SIP), see note 34, where the share price at which shares will be purchased is expected to be less than the average market value of ordinary shares for the period from issue of the options to 31 January 2015.

	2015	2014
Weighted average number of ordinary shares in issue (millions)	**520.1**	469.3
Potentially dilutive shares under SIP (see note 34) (millions)	**1.0**	–
Weighted average number of diluted ordinary shares (millions)	**521.1**	469.3
Diluted earnings per share (pence)	**13.3**	32.7

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

	2015	2014
Profit after tax as reported (£m)	**69.1**	153.4
Adjusted for:		
Exceptional items (£m)	**47.6**	14.6
Share-based payments and acquisition earn-out costs (£m)	**1.9**	2.2
Items not allocated to a segment (£m)	**6.4**	(5.2)
Profit on disposal of joint venture (£m)	**–**	(0.4)
Amortisation of debt issue fees (£m)	**20.7**	20.3
Penalties on early repayment of debt (£m)	**3.5**	–
Transfer from cashflow hedge reserve for extinguishment of cashflow hedge (£m)	**7.0**	–
Tax (credit)/expense (£m)	**(8.3)**	39.4
Adjusted profit before tax (£m)	**147.9**	224.3
Tax at the effective rate of 18.1% (2014: 20.4%) (£m)	**(26.8)**	(45.8)
Adjusted profit after tax (£m)	**121.1**	178.5
Weighted average number of shares outstanding (millions)	**520.1**	469.3
Adjusted basic earnings per share (pence)	**23.3**	38.0
Weighted average number of diluted ordinary shares (millions)	**521.1**	469.3
Adjusted diluted earnings per share (pence)	**23.2**	38.0

Amortisation of debt issue fees include £20.7m (2014: £20.3m) that was immediately written off following the repayment of the Senior Term Facility in May 2014 and the repayment of £175.0m of PIK notes in December 2014 (see note 5). In addition, a penalty fee of £3.5m was paid following the early repayment of the PIK notes.

10 Cash flow from operating activities

	2015 £m	2014 £m
Profit before tax	**60.8**	192.8
Amortisation of intangible assets	**19.7**	12.1
Depreciation of tangible fixed assets	**28.6**	27.5
Finance costs	**266.1**	179.5
Finance income	**(1.0)**	(0.3)
Other operating income	**(0.4)**	(0.3)
Share of profit of joint venture and associates	**(0.9)**	(0.4)
Share-based payments	**1.6**	–
Profit on disposal of joint venture	**–**	(0.4)
Working capital adjustments:		
(Increase)/decrease in inventories	**(0.1)**	0.4
(Increase)/decrease in trade and other receivables	**(24.1)**	36.9
Increase/(decrease) in trade and other payables	**25.2**	(11.4)
Decrease in provisions	**(7.6)**	(22.2)
(Decrease)/increase in insurance technical provisions	**(0.3)**	1.0
Difference between pension charge and cash contributions	**(9.2)**	(19.6)
Purchase of vehicles	**(0.5)**	–
Proceeds from sale of vehicles	**15.4**	–
Net cash flows from operating activities before tax	**373.3**	395.6
Tax paid	**(2.5)**	(8.2)
Net cash flows from operating activities	**370.8**	387.4

The cash flows from operating activities are stated net of cash outflows relating to exceptional items of £57.2m (2014: £37.4m). This relates to the cost of the IPO of £32.1m (2014: £nil), re-financing of the Group's borrowings £0.5m (2014: £10.8m), acquisition earn out payments of £2.3m (2014: £1.8m), restructuring expenditure costs from the re-organising of Group operations of £18.7m (2014: £18.8m) and onerous property provision lease costs in respect of vacant properties of £3.6m (2014: £6.0m).

Notes to the consolidated financial statements continued

11 Goodwill and other intangible assets

	Goodwill £m	Software £m	Total £m
Cost			
At 1 February 2013	1,197.8	80.3	1,278.1
Additions	0.7	19.9	20.6
Disposals	–	(0.1)	(0.1)
At 31 January 2014	**1,198.5**	**100.1**	**1,298.6**
Additions	–	31.4	31.4
Disposals	–	(1.9)	(1.9)
At 31 January 2015	**1,198.5**	**129.6**	**1,328.1**
Amortisation and impairment			
At 1 February 2013	–	40.8	40.8
Amortisation	–	12.1	12.1
At 31 January 2014	**–**	**52.9**	**52.9**
Amortisation	–	19.7	19.7
Disposals	–	(1.4)	(1.4)
At 31 January 2015	**–**	**71.2**	**71.2**
Net book value			
At 31 January 2015	**1,198.5**	**58.4**	**1,256.9**
At 31 January 2014	1,198.5	47.2	1,245.7

Goodwill additions relate to business combinations disclosed in note 12 below.

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

12 Business combinations

Acquisitions during the year ended 31 January 2015

There were no acquisitions in the current year.

Acquisitions during the year ended 31 January 2014

On 16 January 2014 the Group acquired the entire share capital of VVCR Europe Holding B.V, a provider of driving services for a total consideration of £0.7m.

13 Property, plant and equipment

	Freehold land and buildings £m	Long leasehold land and buildings £m	Vehicles £m	Plant and equipment £m	Total £m
Cost					
At 1 February 2013	23.9	8.3	69.4	97.1	198.7
Additions	–	2.2	9.2	7.8	19.2
Disposals	–	–	(12.2)	(0.3)	(12.5)
Exchange adjustments	–	(0.1)	(0.1)	(0.6)	(0.8)
At 31 January 2014	**23.9**	**10.4**	**66.3**	**104.0**	**204.6**
Additions	–	0.3	61.9	5.5	67.7
Disposals	–	(0.1)	(36.1)	(1.1)	(37.3)
Exchange adjustments	–	(0.3)	(0.1)	(1.4)	(1.8)
At 31 January 2015	**23.9**	**10.3**	**92.0**	**107.0**	**233.2**
Depreciation and impairment					
At 1 February 2013	4.9	2.9	37.1	67.3	112.2
Charge for the year	0.6	0.5	14.7	11.7	27.5
Disposals	–	–	(11.9)	(0.2)	(12.1)
Exchange adjustments	–	–	–	(0.3)	(0.3)
At 31 January 2014	**5.5**	**3.4**	**39.9**	**78.5**	**127.3**
Charge for the year	0.6	0.6	17.4	10.0	28.6
Disposals	–	–	(20.4)	(1.1)	(21.5)
Exchange adjustments	–	(0.1)	–	(0.9)	(1.0)
At 31 January 2015	**6.1**	**3.9**	**36.9**	**86.5**	**133.4**
Net book value					
At 31 January 2015	**17.8**	**6.4**	**55.1**	**20.5**	**99.8**
At 31 January 2014	18.4	7.0	26.4	25.5	77.3

The net book amount of vehicles includes £53.8m (2014: £24.8m) held under finance lease agreements. The accumulated depreciation on these assets is £35.2m (2014: £38.5m).

The net book amount of other assets includes £0.3m (2014: £1.9m) in respect of plant & machinery held under finance lease agreements. The accumulated depreciation on these assets is £7.7m (2014: £6.1m).

Notes to the consolidated financial statements continued

14 Investments in joint ventures and associates

	2015			2014		
	Joint ventures £m	**Associates £m**	**Total £m**	Joint ventures £m	Associates £m	Total £m
At 1 February	**–**	**3.5**	**3.5**	–	3.4	3.4
Share of profits	**0.6**	**0.3**	**0.9**	–	0.4	0.4
Exchange differences	**–**	**(0.3)**	**(0.3)**	–	(0.3)	(0.3)
At 31 January	**0.6**	**3.5**	**4.1**	–	3.5	3.5

The principal joint venture of the Group which is indirectly held is listed below.

Company	Country of registration	Nature of business
AA Law Limited (49% interest held)[1]	England	Insurance services

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

The Group refers personal injury cases to AA Law Limited which accounts for all of the revenue in the joint venture. There are no transactions between the Group and AA Law Limited and therefore no balances outstanding between the parties as at 31 January 2015.

The principal associates of the Group which are indirectly held are listed below:

Company	Country of registration	Name of business
ARC Europe S.A. (20% interest held)	Belgium	Roadside Services
A.C.T.A. Assistance S.A. (22% interest held)	France	Roadside Services

15 Inventories

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

16 Trade and other receivables

	2015 £m	2014 £m
Current		
Trade receivables	**156.4**	134.1
Prepayments and accrued income	**25.4**	21.9
Trade receivables from fellow subsidiary undertakings	**–**	0.8
Other receivables	**5.3**	6.1
	187.1	162.9
Non-current		
Interest rate swap derivatives (see note 27)	**21.2**	1.4
Fixed term investments – restricted (see note 17)	**–**	5.0
	21.2	6.4

Trade receivables from fellow subsidiary undertakings at 31 January 2014 are unsecured, payable within one month and bear no interest.

Included in trade receivables are amounts of £89.0m (2014: £89.3m) relating to amounts due from insurance broking customers.

17 Cash and cash equivalents

	2015 £m	2014 £m
Ring-fenced cash at bank and in hand – available	**243.6**	127.6
Ring-fenced cash at bank and in hand – restricted	**17.6**	17.1
Non ring-fenced cash at bank and in hand – available	**15.2**	1.5
Non ring-fenced cash at bank and in hand – restricted	**25.1**	57.0
	301.5	203.2

Ring-fenced cash and cash equivalents relate to cash held by AA Intermediate Co Limited and its subsidiaries. There are restrictions on dividends that can be paid to AA plc until certain debt to EBITDA and cashflow criteria are met.

Cash at bank and in hand – restricted includes £18.5m (2014: £55.4m) held as pre-funded interest to cover interest payments on the PIK notes (see note 20) and cannot be used for any other purpose.

Cash at bank and in hand, short term deposits and fixed term investments (see note 16) include £24.2m (2014: £23.7m) held by and on behalf of the Group's insurance businesses which are subject to contractual or regulatory restrictions. These amounts are not readily available to be used for other purposes within the Group.

18 Trade and other payables

	2015 £m	2014 £m
Trade payables	**114.1**	102.3
Trade payables owed to group undertakings	**–**	12.8
Other taxes and social security costs	**25.5**	21.1
Accruals and deferred income	**303.6**	273.6
Other payables	**20.4**	40.0
Obligations under finance lease agreements (note 29)	**34.6**	12.1
	498.2	461.9

Trade payables owed to group undertakings as at 31 January 2014 are unsecured, payable between one and three months and bear no interest.

Included in trade payables are amounts of £84.8m (2014: £81.6m) relating to amounts due to underwriters in respect of insurance broking activities.

19 Borrowings and loans

	2015 £m	2014 £m
Borrowings (see note 20)	**3,190.7**	3,342.2
Interest rate swap used for hedging (see note 27)	**50.2**	9.2
	3,240.9	3,351.4

Notes to the consolidated financial statements continued

20 Borrowings

	Expected maturity date	Interest rate	Principal £m	Issue costs £m	Amortised issue costs £m	**Total at 31 January 2015 £m**	Total at 31 January 2014 £m
Senior Term Facility	31 January 2019	3.98%	663.0	(3.1)	0.6	**660.5**	893.0
Class A1 notes	31 July 2018	4.72%	475.0	(3.0)	1.0	**473.0**	472.4
Class A2 notes	31 July 2025	6.27%	500.0	(0.8)	0.1	**499.3**	499.3
Class A3 notes	31 July 2020	4.25%	500.0	(2.7)	0.5	**497.8**	497.3
Class A4 notes	31 July 2019	3.78%	250.0	(2.2)	0.3	**248.1**	–
Class B notes	31 July 2019	9.50%	655.0	(21.5)	5.6	**639.1**	635.7
PIK notes	6 November 2019	9.50%	175.0	(5.6)	3.5	**172.9**	344.5
		5.90%	**3,218.0**	**(38.9)**	**11.6**	**3,190.7**	**3,342.2**

A summary of the Group's financing transactions are shown below:

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

At 31 January 2015, the Senior Term Facility carried interest at a rate of LIBOR plus a margin of 2%. The variable element has been fully hedged using matching interest rate swap arrangements which fix LIBOR at 1.98% until 31 July 2018 and then at 3.00% until 31 January 2019. All other borrowings have fixed interest rates. The weighted average interest rate for all borrowings of 5.9% has been calculated using the effective interest rate and carrying values on 31 January 2015.

In order to show the Group's net borrowing, the notes and the issue costs have been offset. Issue costs are shown net of any premium on the issue of borrowings.

All of the Class A notes and Senior Term Facility are secured by first ranking security in respect of the undertakings and assets of AA Intermediate Co Limited and its subsidiaries. The Class A facility security over the AA Intermediate Co group's assets ranks ahead of the Class B notes. The Class B notes have first ranking security over the assets of the immediate parent undertaking of the AA Intermediate Co group, AA Mid Co Limited. There are restrictions on the ability of the AA Mid Co Limited group to pay a dividend until certain net debt to EBITDA and cashflow criteria are met. The PIK notes are unsecured.

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

Following the refinancing of the Senior Term Facility and the repayment of the PIK notes, amortisation of the associated issue fees has been accelerated and an additional £20.7m (2014: £20.3m) has been written off in the period.

21 Provisions

	Property leases £m	Restructuring £m	Other £m	Total £m
At 1 February 2013	35.3	13.7	0.8	49.8
Utilised during the year	(6.0)	(14.9)	(1.1)	(22.0)
Released unutilised during the year	(5.8)	(0.2)	–	(6.0)
Unwinding of discount rate	0.2	–	–	0.2
Charge for the year	1.3	2.9	1.4	5.6
At 31 January 2014	**25.0**	**1.5**	**1.1**	**27.6**
Utilised during the year	(3.6)	(1.0)	(1.4)	(6.0)
Released unutilised during the year	(4.3)	(0.2)	(0.3)	(4.8)
Unwinding of discount rate	0.2	–	–	0.2
Charge for the year	1.2	0.4	1.6	3.2
At 31 January 2015	**18.5**	**0.7**	**1.0**	**20.2**
Current	6.3	0.7	1.0	8.0
Non-current	12.2	–	–	12.2
At 31 January 2015	**18.5**	**0.7**	**1.0**	**20.2**
Current	9.3	1.5	1.1	11.9
Non-current	15.7	–	–	15.7
At 31 January 2014	**25.0**	**1.5**	**1.1**	**27.6**

The property lease provision relates to future onerous lease costs of vacant properties for the remaining period of the lease, net of expected sub-letting income. A significant element of this provision relates to Service Centre sites not transferred to a third party. These sums are mainly expected to be paid out over the next 8 years however it will take 39 years to fully pay out all amounts provided for. The provision has been calculated on a pre-tax discounted basis.

The restructuring provision relates to redundancy and other related costs following the restructuring of operations in the current and prior periods.

Other provisions primarily comprise a provision for an onerous contract of £0.8m. The remaining £0.2m relates to a provision for credit and rewards in the financial services business. These items are reviewed and updated annually.

Notes to the consolidated financial statements continued

22 Insurance technical provisions

	2015 £m	2014 £m
Outstanding claims provisions	**2.4**	2.9
Other technical provisions – provisions for incurred but not reported claims	**1.5**	1.3
	3.9	4.2

Provision is made for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported. The estimated cost of claims includes expenses to be incurred in settling claims. The Group takes all reasonable steps to ensure it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing the claims provisions, it is likely that the final outcome will prove to be different than the original liability established.

23 Share capital

	2015 £m	2014 £m
Allotted, called up and fully paid		
1,000,000 'A' ordinary shares of £0.10 each	**–**	0.1
1,015,344 'B' ordinary shares of £0.10 each	**–**	0.1
554,000,001 ordinary shares of £0.001 each	**0.6**	–
	0.6	0.2

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

On 17 June 2014, the A and B ordinary shares were reorganised from 2,015,344 £0.10 shares to 201,534,400 ordinary shares of £0.001 each.

23 Share capital continued

On 20 June 2014, the Company undertook a bonus issue of 267,745,600 shares of £0.001 resulting in a transfer of £0.3m from its share premium account to share capital.

On 26 June 2014, the Company issued 84,720,001 shares at a premium of £199.2m including issue costs.

In addition to the above, on 25 June 2014, AA plc issued 24 million Management Value Participation Shares (MVPS) as follows:

	2015 £000	2014 £000
Allotted, called up and fully paid		
8,000,000 MVPS A1 shares of £0.001 each	**8.0**	–
8,000,000 MVPS B1 shares of £0.001 each	**8.0**	–
8,000,000 MVPS C1 shares of £0.001 each	**8.0**	–
	24.0	–

The MVPS shares have no voting rights. There are 8 million authorised shares in each of the following MVPS classes: A1, B1 and C1. There are 12 million authorised and unissued shares in each of the following MVPS classes: A2, B2 and C2. In total, there are 60 million authorised MVPS shares. See also note 34.

24 Reserves

	Share premium £m	Currency translation reserve £m	Cashflow hedge reserve £m	Retained earnings £m	Total £m
At 1 February 2013	0.8	(1.0)	–	144.8	144.6
Retained profit for the year	–	–	–	153.4	153.4
Other comprehensive income:					
Exchange differences on translation of foreign operations	–	(0.1)	–	–	(0.1)
Remeasurement losses on defined benefit schemes (note 25)	–	–	–	(122.7)	(122.7)
Tax effect of remeasurement losses on defined benefit schemes (note 8)	–	–	–	24.5	24.5
Dividends paid	–	–	–	(2,571.9)	(2,571.9)
Effective portion of changes in fair value of cash flow hedges	–	–	(7.8)	–	(7.8)
Tax effect of effective portion of changes in fair value of cash flow hedges	–	–	1.6	–	1.6
At 31 January 2014	**0.8**	**(1.1)**	**(6.2)**	**(2,371.9)**	**(2,378.4)**
Retained profit for the year	–	–	–	69.1	69.1
Other comprehensive income:					
Exchange differences on translation of foreign operations	–	(0.8)	–	–	(0.8)
Remeasurement losses on defined benefit schemes (note 25)	–	–	–	(167.3)	(167.3)
Tax effect of remeasurement losses on defined benefit schemes (note 8)	–	–	–	32.5	32.5
Effective portion of changes in fair value of cash flow hedges	–	–	(14.2)	–	(14.2)
Tax effect of effective portion of changes in fair value of cash flow hedges	–	–	2.8	–	2.8
Reorganisation of share capital	(0.3)	–	–	–	(0.3)
Issue of shares	201.7	–	–	–	201.7
Share issue costs	(2.5)	–	–	–	(2.5)
Share based payments	–	–	–	1.6	1.6
At 31 January 2015	**199.7**	**(1.9)**	**(17.6)**	**(2,436.0)**	**(2,255.8)**

Currency translation reserve

The translation reserve comprises foreign exchange differences arising from the translation of the financial statements of foreign operations, as well as from the translation of liabilities that hedge the Group's net investment in a foreign subsidiary.

Cash flow hedge reserve

The cashflow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Dividends

In the year ended 31 January 2014, total dividends of £1,276 per qualifying ordinary share were paid.

Notes to the consolidated financial statements continued

25 Pensions

The Group operates two funded defined benefit pension schemes: the AA UK Pension Scheme (AAUK) and the AA Ireland Pension Scheme (AAI). The assets of the schemes are held separately from those of the Group in independently administered funds. New entrants to the AAUK scheme accrue benefits on a career average salary basis. The AAUK scheme has final salary sections that are closed to new entrants but open to future accrual for existing members. The AAI scheme is closed to new entrants and future accrual of benefits. The Group also operates an unfunded post-retirement Private Medical Plan scheme (AAPMP), which is a defined benefit scheme that is not open to new entrants.

On 29 November 2013, the Group completed the AAUK pension scheme triennial valuations agreeing a deficit of £202m with the pension trustees and implementing an asset backed funding scheme. The asset backed funding scheme provides a long-term deficit reduction plan where the Group has an annual deficit reduction contribution of £12.5m increasing with inflation, over a period of up to 25 years from 29 November 2013 secured on the Group's brands and gave a one-off £198.0m tax deduction that the Group could utilise within two years. This compares with the traditional unsecured deficit reduction plan requiring the deficit to be removed over a substantially shorter period and would have resulted in significantly higher annual deficit contributions.

The valuations have been based on a full assessment of the liabilities of the schemes which have been updated where appropriate to 31 January 2015 by independent qualified actuaries.

The Group expects to pay £20.3m in on-going employer contributions and £14.0m in deficit reduction employer contributions to its defined benefit plans (AAUK and AAI) in the year ending 31 January 2016.

The amounts recognised in the balance sheet are as follows:

	As at 31 January 2015			
	AAUK £m	AAI £m	AAPMP £m	Total £m
Present value of the defined benefit obligation in respect of pension plans	(2,177.5)	(51.4)	(49.4)	(2,278.3)
Fair value of plan assets	1,808.9	35.0	–	1,843.9
Deficit	**(368.6)**	**(16.4)**	**(49.4)**	**(434.4)**

	As at 31 January 2014			
	AAUK £m	AAI £m	AAPMP £m	Total £m
Present value of the defined benefit obligation in respect of pension plans	(1,759.7)	(42.0)	(44.0)	(1,845.7)
Fair value of plan assets	1,546.8	33.4	–	1,580.2
Deficit	**(212.9)**	**(8.6)**	**(44.0)**	**(265.5)**

The increase in the deficit is mainly due to changes in financial assumptions, mostly from a fall in the discount rates in all of the schemes. This has been partially offset by a gain on assets.

25 Pensions continued

	Assets £m	Liabilities £m	Income statement £m	Statement of comprehensive income £m
Balance at 1 February 2014	1,580.2	(1,845.7)	–	–
Current service cost	–	(26.6)	(26.6)	–
Past service cost	–	0.4	0.4	–
Administration expenses	–	(0.2)	(0.2)	
Interest on defined benefit scheme assets/(liabilities)	68.6	(79.3)	(10.7)	–
Amounts recognised in the income statement	**68.6**	**(105.7)**	**(37.1)**	**–**
Effect of changes in financial assumptions	–	(373.5)	–	(373.5)
Effect of experience adjustment	–	(2.5)	–	(2.5)
Return on plan assets excluding interest income	208.7	–	–	208.7
Amounts recognised in the statement of comprehensive income	**208.7**	**(376.0)**	**–**	**(167.3)**
Foreign exchange (loss)/gain	**(3.3)**	**4.4**	**–**	**1.1**
Contribution from scheme participants	1.2	(1.2)	–	–
Benefits paid from scheme assets	(45.9)	45.9	–	–
Ongoing employer contributions	20.8	–	–	–
Deficit reduction employer contributions	13.6	–	–	–
Movements through cash	**(10.3)**	**44.7**	**–**	**–**
Balance at 31 January 2015	**1,843.9**	**(2,278.3)**	**–**	**–**

A benefit change exercise was carried out within the AAI scheme during the prior year, with effect from 31 August 2013 where future accrual for employed members ceased and guaranteed post-retirement pension increases became discretionary. The impact of this benefit change was a past service credit of £0.4m (2014: £12.4m) in relation to the AAI scheme.

Notes to the consolidated financial statements continued

25 Pensions continued

	Assets £m	Liabilities £m	Income statement £m	Statement of comprehensive income £m
Balance at 1 February 2013	1,535.4	(1,701.1)	–	–
Current service cost	–	(25.8)	(25.8)	–
Past service cost	–	12.4	12.4	–
Interest on defined benefit scheme assets/(liabilities)	71.3	(78.1)	(6.8)	–
Amounts recognised in the income statement	**71.3**	**(91.5)**	**(20.2)**	**–**
Effect of changes in demographic assumptions	–	(2.1)	–	(2.1)
Effect of changes in financial assumptions	–	(76.0)	–	(76.0)
Effect of experience adjustment	–	(20.2)	–	(20.2)
Return on plan assets excluding interest income	(24.4)	–	–	(24.4)
Amounts recognised in the statement of comprehensive income	**(24.4)**	**(98.3)**	**–**	**(122.7)**
Foreign exchange (loss)/gain	**(1.3)**	**1.9**	**–**	**0.6**
Contribution from scheme participants	1.2	(1.2)	–	–
Benefits paid from scheme assets	(44.5)	44.5	–	–
Ongoing employer contributions	19.4	–	–	–
Deficit reduction employer contributions	23.1	–	–	–
Movements through cash	**(0.8)**	**43.3**	**–**	**–**
Balance at 31 January 2014	**1,580.2**	**(1,845.7)**	**–**	**–**

Fair value of plan assets

The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

The table below shows the AAUK plan assets split between those that have a quoted market price and those that are unquoted. Of the AAI scheme, 22.0% of assets do not have a quoted market price.

The fair value of the plan assets and the return on those assets were as follows:

	2015		2014	
	Assets with a quoted market price £m	**Assets without a quoted market price £m**	Assets with a quoted market price £m	Assets without a quoted market price £m
Equities	**237.4**	**206.4**	312.3	154.9
Bonds	**730.8**	**113.0**	587.0	66.5
Property	**67.2**	**131.9**	16.2	117.3
Hedge funds	**–**	**304.8**	–	263.7
Cash/net current assets	**14.9**	**2.5**	23.3	5.6
Total plan assets	**1,050.3**	**758.6**	938.8	608.0
Actual return on plan assets	**272.3**		45.6	

25 Pensions continued

Pension plan assumptions

The principal actuarial assumptions were as follows:

	AAUK		AAI		AAPMP	
	2015 %	2014 %	**2015 %**	2014 %	**2015 %**	2014 %
Pensioner discount rate	**2.9**	4.2	**1.2**	2.9	**2.9**	4.2
Non pensioner discount rate	**3.2**	4.5	**2.0**	3.6	**3.2**	4.5
Pensioner RPI	**2.6**	3.2	**–**	–	**2.6**	3.2
Non pensioner RPI	**2.9**	3.4	**–**	–	**2.9**	3.4
Rate of increase of pensions in payment – pensioner	**2.5**	2.9	**–**	–	**–**	–
Rate of increase of pensions in payment – non pensioner	**2.7**	3.0	**–**	–	**–**	–
Pensioner increase for deferred benefits	**1.9**	2.4	**1.5**	2.0	**–**	–
Medical premium inflation rate	**–**	–	**–**	–	**6.6**	7.2

Mortality assumptions are set using standard tables based on scheme specific experience where available. Each scheme's mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The AA schemes' assumptions are that an active male retiring in normal health currently aged 60 will live on average for a further 28 years and an active female retiring in normal health currently aged 60 will live on average for a further 30 years.

Sensitivity analysis

The Scheme exposes the Group to risks such as longevity, interest rate risk and market (investment) risk.

The AA Pension Scheme Trustees have hedged around 45% of interest rate risk and 80% of inflation risk as part of a policy to reduce financial risks to the Scheme.

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit liability by the amounts shown below:

	For the year ending 31 January 2015		
	AAUK £m	**AAI £m**	**AAPMP £m**
Increase of 0.25% in discount rate	**108.2**	**3.7**	**1.8**
Increase of 0.25% in inflation rate	**(106.4)**	**(1.4)**	**–**
Increase of 1% in medical claims inflation	**–**	**–**	**(6.5)**
Increase of one year of life expectancy	**(66.3)**	**(1.8)**	**–**

An equivalent decrease in the assumptions at 31 January 2015 would have had the equal but opposite effect on the amounts shown above, on the basis that all other variables remain constant.

The weighted average duration of plan liabilities at 31 January 2015 is 22 years.

Notes to the consolidated financial statements continued

26 Impairment of intangible assets

Goodwill acquired through business combinations has been allocated to cash generating units (CGUs) on initial recognition and for subsequent impairment testing.

The carrying value of goodwill by CGU is as follows:

	2015 £m	2014 £m
Roadside Assistance	**874.2**	874.2
Insurance Services	**240.2**	240.2
Driving Services	**58.5**	58.5
Ireland	**25.6**	25.6
	1,198.5	1,198.5

The Group has performed impairment testing at 31 January 2015 and 31 January 2014. The impairment test compares the recoverable amount of the CGU to its carrying value.

The recoverable amount of each CGU has been determined based on a value in use calculation using cash flow projections from the Group's three-year plan up to 31 January 2018 and a reasonable expectation of growth in the subsequent two years. For the purposes of the impairment test, terminal values have been calculated using the Gordon growth model and a nil growth assumption which is lower than the expected long-term average growth rate of the UK economy. Cash flows have been discounted at a pre-tax rate reflecting the time value of money and the risk specific to these cash flows. This has been determined as a pre-tax rate of 12.2% (2014: 12.2%).

The value in use calculation used is most sensitive to the assumptions used for growth and for the discount rate. Accordingly, stress testing has been performed on these key assumptions as part of the impairment test to further inform the consideration of whether any impairment is evident. Further to this, management believes that no reasonably foreseeable change in any of the key assumptions would cause the recoverable amount of the CGU to be lower than its carrying amount, and consequently no impairment has been recognised.

27 Financial assets and financial liabilities

The carrying amount of all financial assets and financial liabilities by class is as follows:

Financial assets

	2015 £m	2014 £m
Measured at fair value through other comprehensive income		
Interest rate swaps used for hedging	**21.2**	1.4
Loans and receivables		
Cash and cash equivalents	**301.5**	203.2
Trade receivables	**156.4**	134.1
Trade receivables from fellow subsidiary undertakings	**–**	0.8
Other receivables and accrued income	**17.8**	18.4
Fixed term investments	**–**	5.0
Total financial assets	**496.9**	362.9

27 Financial assets and financial liabilities continued

Financial liabilities

	2015 £m	2014 £m
Measured at fair value through other comprehensive income		
Interest rate swaps used for hedging	**50.2**	9.2
Loans and borrowings		
Trade payables	**114.1**	102.3
Trade payables owed to group undertakings	**–**	12.8
Other payables	**64.1**	68.3
Obligations under finance lease agreements	**50.4**	20.0
Borrowings	**3,190.7**	3,342.2
Total financial liabilities	**3,469.5**	3,554.8

Fair values

Financial instruments held at fair value are valued using quoted market prices or other valuation techniques.

Valuation techniques include net present value and discounted cash flow models, and comparison to similar instruments for which market observable prices exist. Assumptions and market observable inputs used in valuation techniques include interest rates.

The objective of using valuation techniques is to arrive at a fair value that reflects the price of the financial instrument at each year end at which the asset or liability would have been exchanged by market participants acting at arm's length.

Observable inputs are those that have been seen either from counterparties or from market pricing sources and are publicly available. The use of these depends upon the liquidity of the relevant market. When measuring the fair value of an asset or a liability, the Group uses observable inputs as much as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation as follows:

Level 1 – Quoted market prices in an actively traded market for identical assets or liabilities. These are the most reliable.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities. These include valuation models used to calculate the present value of expected future cash flows and may be employed either when no active market exists or when there are quoted prices available for similar instruments in active markets. The models incorporate various inputs including interest rate curves and forward rate curves of the underlying instrument.

Level 3 – Inputs for assets or liabilities that are not based on observable market data.

If the inputs used to measure the fair values of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level as the lowest input that is significant to the entire measurements.

The fair values are periodically reviewed by the Group Treasury function. The following tables provide the quantitative fair value hierarchy of the Group's interest rate swaps and loan notes.

The carrying values of all other financial assets and liabilities (including the Senior Term Facility) are approximate to their fair values:

Notes to the consolidated financial statements continued

27 Financial assets and financial liabilities continued

At 31 January 2015:

	Carrying value £m	Fair value measurement using: Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
Financial assets measured at fair value				
Interest rate swaps (note 16)	**21.2**	–	**21.2**	–
Financial liabilities measured at fair value				
Interest rate swaps (note 19)	**50.2**	–	**50.2**	–
Liabilities for which fair values are disclosed				
Loan notes (note 20)	**2,530.2**	**2,861.0**	–	–

At 31 January 2014:

	Carrying value £m	Fair value measurement using: Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
Financial assets measured at fair value				
Interest rate swaps (note 16)	1.4	–	1.4	–
Financial liabilities measured at fair value				
Interest rate swaps (note 19)	9.2	–	9.2	–
Liabilities for which fair values are disclosed				
Loan notes (note 20)	2,449.2	2,649.7	–	–

There have been no transfers between the levels and no non-recurring fair value measurements of assets and liabilities during the two years to 31 January 2015.

28 Financial risk management objectives and policies

The Group's principal financial liabilities comprise borrowings as well as trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include deposits with financial institutions, money market funds and trade receivables.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks, supported by the Group Treasury function. The Group Treasury function ensures that the Group's financial risks are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. All derivative activities are for risk management purposes and are carried out by the Group Treasury function. It is the Group's policy not to trade in derivatives for speculative purposes.

The Board of directors reviews and agrees policies for managing each of these risks, which are summarised below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in prices set by the market. The key market risk that the Group is exposed to is interest rate risk. The Group has policies and limits approved by the Board for managing the interest rate risk exposure. The Group's policy is to fully hedge all of its exposure to variable interest rates. The Group has therefore taken out interest rate swaps to the value of its variable rate instruments.

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

	2015 £m	2014 £m
Fixed rate instruments		
Financial assets	**–**	2.0
Financial liabilities	**(2,580.6)**	(2,469.2)
	(2,580.6)	(2,467.2)
Effect of interest rate swaps	**(663.0)**	(913.0)
Net exposure to fixed rate instruments	**(3,243.6)**	(3,380.2)
Variable rate instruments		
Financial assets	**–**	3.0
Financial liabilities	**(660.5)**	(893.0)
	(660.5)	(890.0)
Effect of interest rate swaps	**663.0**	913.0
Net exposure to variable rate instruments	**2.5**	23.0

Sensitivity of fixed rate instruments

The Group does not account for any fixed rate financial assets and financial liabilities at fair value through profit or loss and does not use derivative instruments in fair value hedges. Consequently, having regard to fixed rate instruments, a change in market interest rates at the reporting date would not affect profit or loss.

Sensitivity of variable rate instruments

An increase of 50 basis points in interest rates at 31 January 2015 would have increased equity by £8.7m (2014: £13.8m) and had no impact on profit or cash. A decrease to interest rates of the same magnitude will have an equal and opposite effect on equity and profit. This calculation assumes that the change occurred at the year end and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables remain constant and considers the effect of financial instruments with variable interest rates and the fixed rate element of interest rate swaps. The analysis is performed on the same basis for all comparative periods.

Notes to the consolidated financial statements continued

28 Financial risk management objectives and policies continued

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk in relation to its financial assets, outstanding derivatives and trade and other receivables. The Group assesses its counterparty exposure in relation to the investment of surplus cash and undrawn credit facilities. The Group primarily uses published credit ratings to assess counterparty strength and therefore to define the credit limit for each counterparty, in accordance with approved treasury policies.

The credit risk for the Group is limited as payment from customers is generally required before services are provided.

Credit risk in relation to deposits and derivative counterparties is managed by the Group's Treasury function in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. The limits are set to mitigate financial loss through any potential counterparty failure.

The Group's maximum exposure to credit risk for the components of the statement of financial position at each reporting date is the carrying amount except for derivative financial instruments. The Group's maximum exposure for financial derivative instruments is noted under liquidity risk.

The ageing analysis of trade receivables is as follows:

			Past due but not impaired		
	Total £m	Neither past due nor impaired £m	< 30 days £m	30 – 60 days £m	60+ days £m
2015	**156.4**	**143.7**	**5.2**	**1.7**	**5.8**
2014	134.1	128.2	5.3	0.3	0.3

The movements in the provision for the collective impairment of receivables are as follows:

	2015 £m	2014 £m
At 1 February	**3.6**	4.4
Charge for the year	**1.3**	2.7
Utilised	**(1.8)**	(3.5)
Unused amounts reversed	**(0.9)**	–
At 31 January	**2.2**	3.6

28 Financial risk management objectives and policies continued

Liquidity risk

Liquidity risk is the risk that the Group either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure them only at excessive cost. The Group's approach to managing liquidity risk is to evaluate current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and headroom on its working capital facilities.

The table below analyses the maturity of the Group's financial liabilities on a contractual undiscounted cash flow basis and includes any associated debt service costs. The analysis of non-derivative financial liabilities is based on the remaining period at the reporting date to the contractual maturity date.

At 31 January 2015:

	On demand £m	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
Loans and borrowings	–	182.1	184.7	2,691.7	1,183.0	4,241.5
Obligation under finance leases	–	36.6	10.1	5.7	1.8	54.2
Other payables and accruals	–	64.1	–	–	–	64.1
Trade payables	–	114.1	–	–	–	114.1
	–	396.9	194.8	2,697.4	1,184.8	4,473.9
Interest rate swaps used for hedging						
Assets (inflow)	–	(6.2)	(0.3)	(14.2)	–	(20.7)
Liabilities	–	13.2	3.8	13.6	–	30.6
	–	7.0	3.5	(0.6)	–	9.9
	–	403.9	198.3	2,696.8	1,184.8	4,483.8

At 31 January 2014:

	On demand £m	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
Loans and borrowings	–	204.5	218.5	2,039.9	2,297.2	4,760.1
Obligation under finance leases	–	13.5	5.5	3.0	–	22.0
Other payables and accruals	–	68.3	–	–	–	68.3
Trade payables	–	115.1	–	–	–	115.1
	–	401.4	224.0	2,042.9	2,297.2	4,965.5
Interest rate swaps used for hedging						
Assets (inflow)	–	(7.5)	(0.4)	(40.1)	–	(48.0)
Liabilities	–	19.4	4.9	24.3	–	48.6
	–	11.9	4.5	(15.8)	–	0.6
	–	413.3	228.5	2,027.1	2,297.2	4,966.1

Notes to the consolidated financial statements continued

28 Financial risk management objectives and policies continued

Capital management

The Group's objectives when managing capital are:

- To safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders
- To further strengthen the AA as the pre-eminent motoring services organisation in the UK
- To revolutionise the customer experience through investing in and embracing new technologies
- To reduce Group borrowings and associated interest costs
- To provide an adequate return to shareholders

The Group monitors capital using net debt to Trading EBITDA ratios. The key ratios are Senior Secured Debt to Trading EBITDA, Net Debt excluding PIK notes to Trading EBITDA and Net Debt to Trading EBITDA as calculated below:

	2015 £m	2014 £m
Senior Term Facility	**663.0**	913.0
Class A notes	**1,725.0**	1,475.0
Less: AA Intermediate Co Limited group cash and cash equivalents	**(261.2)**	(144.7)
Net Senior Secured Debt[1]	**2,126.8**	2,243.3
Class B notes	**655.0**	655.0
Finance lease obligations	**50.4**	20.0
Net Debt excluding PIK notes[2]	**2,832.2**	2,918.3
PIK notes	**175.0**	350.0
Less: AA plc Group cash and cash equivalents[3]	**(40.3)**	(58.5)
Total Net Debt	**2,966.9**	3,209.8

Net debt ratio[4]	**6.9x**	7.6x
Class B leverage ratio[5]	**6.6x**	6.9x
Senior leverage ratio[6]	**4.9x**	5.3x

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

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

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

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

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

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

The Senior Term Facility, Class A notes and Class B notes have interest cover covenants attached to them. The Group was in compliance with all covenants throughout the period and as at 31 January 2015.

The Group includes regulated companies which are required to hold sufficient capital to meet acceptable solvency levels based on the relevant regulators' requirements (see note 17). There are no other externally imposed capital requirements.

29 Commitments and contingencies

Operating lease commitments

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

	Land and buildings		Plant and machinery	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Leases expiring:				
Within one year	**1.6**	0.8	**–**	3.0
Between one and five years	**13.6**	16.9	**–**	1.5
After five years	**30.0**	35.6	**–**	–
	45.2	53.3	**–**	4.5
Income from operating sub-leases	**(6.2)**	(9.3)	**–**	–
Amounts included in onerous lease provisions	**(8.5)**	(17.9)	**–**	–
	30.5	26.1	**–**	4.5

Where a property is no longer used by the Group for operational purposes, tenants are sought to reduce the Group's exposure to lease payments. Where the future minimum lease payments are in excess of any expected rental income due, a provision is made.

Finance lease commitments

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

		2015		2014
	Present value of payments £m	**Minimum payments £m**	Present value of payments £m	Minimum payments £m
Within one year	**34.6**	**36.6**	12.1	13.5
Between one and five years	**15.8**	**17.6**	7.9	8.5
Total minimum lease payments	**50.4**	**54.2**	20.0	22.0
Less amounts representing finance charge	**–**	**(3.8)**	–	(2.0)
Present value of minimum lease payments	**50.4**	**50.4**	20.0	20.0

Commitments

Amounts contracted for but not provided in the financial statements amounted to £4.9m (2014: £0.6m).

30 Principal subsidiary undertakings

The principal operating subsidiary undertakings of AA plc, all of which are wholly owned except where stated, are listed below. There is no difference between the percentage holding and percentage voting rights in ordinary shares. All of the principal subsidiary undertakings of AA plc are indirectly held by the Company, with the exception of AA Mid Co Limited, AA PIK Co Limited and AA Reinsurance Company Limited.

Company	Country of registration	Nature of business
Principal subsidiary undertakings		
Automobile Association Developments Limited	England	Roadside & driving services
Automobile Association Insurance Services Limited	England	Roadside & insurance services
AA Corporation Limited	England	Head office functions
AA Financial Services Limited	England	Insurance Services
Drivetech (UK) Limited	England	Driving services
AA Media Limited	England	Roadside services
AA Ireland Limited	Ireland	Roadside & insurance services
AA Reinsurance Company Limited	Guernsey	Insurance underwriting
AA Mid Co Limited	England	Holding company
AA Intermediate Co Limited	England	Holding company
AA Acquisition Co Limited	England	Holding company
AA Senior Co Limited	England	Holding company and group borrowings
AA PIK Co Limited	Jersey	Group borrowings
AA Bond Co Limited	Jersey	Group borrowings

Notes to the consolidated financial statements continued

31 Auditor's remuneration

	2015 £m	2014 £m
Audit of these financial statements	**0.2**	0.1
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**0.7**	0.7
Corporate finance services	**2.1**	2.1

Corporate finance services mainly relate to reporting accountant work that would normally be undertaken by the auditor.

32 Related party transactions

Following the refinancing in July 2013, under the Umbrella Services Agreement, the Group and Acromas agreed to procure that their respective groups provide specified services to the other, including fleet management, sales and marketing services relating to certain AA financial products, and IT services. There are also a number of specific additional contracts in place for the provision of services between various members of the respective groups including the provision of underwriting by Acromas Insurance Company Limited ("AICL"), for various AA Group products, such as motor insurance, home insurance and home emergency cover. Following the IPO in June 2014, the Acromas group ceased to be a related party.

The following table provides the total value of transactions that have been entered into with related parties during each financial year.

Transactions with other Acromas group companies:

	2015 £m	2014 £m
Sales to the Acromas group		
Insurance underwriting related	**7.0**	14.8
Non-insurance underwriting related	**0.4**	0.8
Purchases from the Acromas group		
Insurance underwriting related	**18.3**	52.7
Non-insurance underwriting related	**2.7**	14.4
Reinsurance transactions with the Acromas group		
Reinsurance premium receipts	**0.2**	0.3
Reinsurance claims payments	**0.2**	0.8
Sale of fixed asset investments	**5.0**	–

Transactions with associates:

		2015 £m	2014 £m
A.C.T.A. S.A.	Call handling fees paid	**2.2**	2.2
	Amounts payable at 31 January	**0.1**	–
A.R.C. Europe S.A.	Registration fees paid	**0.6**	0.5
	Amounts payable at 31 January	**0.4**	0.2

33 Compensation of key management personnel of the Group

The amounts recognised as an expense during the financial year in respect of key management personnel are as follows:

	2015 £m	2014 £m
Short-term employee benefits	**6.1**	6.9
Post-employment pension and medical benefits	**0.4**	0.2
Share-based payments - MVPS	**0.9**	–
Termination payments	**1.5**	–
Total compensation paid to key management personnel	**8.9**	7.1

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group and comprise the Executive Chairman, Chief Financial Officer, Non-Executive Directors and the heads of major business units and administrative functions.

34 Share-based payments and acquisition earn-out costs

	2015 £m	2014 £m
Acquisition earn-out costs	**0.3**	2.2
Share-based payments – MVPS	**0.9**	–
Share-based payments – staff share incentive plan	**0.7**	–
	1.9	2.2

Management value participation shares (MVPS)

On 23 June 2014, the Company issued 24 million convertible, redeemable MVPS shares to certain key members of senior management at £0.001 per share. These shares are divided into three classes and are convertible into ordinary shares following satisfaction of a Total Shareholder Return (TSR) performance condition of 12% per annum compound growth against the admission price of £2.50 which is tested on the third, fourth and fifth anniversaries of admission to the London Stock Exchange.

The MVPS share-based payments are equity settled. The following table illustrates the number and fair value of the MVPS shares:

	Vesting date	No. of shares	2015 Fair value per share £
A1 shares	23 June 2017	8,000,000	0.25
B1 shares	23 June 2018	8,000,000	0.26
C1 shares	23 June 2019	8,000,000	0.26
Total		24,000,000	

The A1 shares can also be converted on the 4th or 5th anniversary of admission and the B1 shares can also be converted on the 5th anniversary of admission.

Notes to the consolidated financial statements continued

34 Share-based payments and acquisition earn-out costs continued

The MVPS were valued using a binomial model and 25% volatility assumption to calculate the fair value using the following risk-free interest rates for the six months ended 31 July 2014:

	Vesting period		
	3-year	4-year	5-year
Risk-free interest rate (%)	0.88	1.35	1.82

The expected volatility reflects the assumption that the historical volatility is indicative of future trends which may not necessarily be the actual outcome.

Staff share incentive plans

On 29 August 2014 and 30 October 2014, AA plc launched a Share Incentive Plan (SIP) and an International Share Incentive Plan (ISIP) respectively.

Under the SIP, employees are able to buy Partnership shares by making weekly or monthly payments into the SIP which are accumulated over a period of 12 months and then used to purchase AA shares at the lower of the closing price on 29 August 2014 and the market value of the shares when they are acquired at the end of the 12 month period. In addition, for every Partnership share an employee purchases' the Company will match this on a 1:1 basis (Matching Shares). The Matching Shares are awarded at the same time as the Partnership shares are purchased at the end of the 12 month accumulation period.

Under the ISIP, employees are able to buy Partnership shares by making weekly or monthly contributions for a 12 month period starting on 30 October 2014 which are used to purchase AA shares at their market value each month. In addition, for every Partnership share an employee purchases, the Company will match this on a 1:1 basis. The employee becomes entitled to the Matching Shares at the end of a three year period following the purchase of the Partnership shares.

The SIP and ISIP share-based payments are equity settled. The following table illustrates the fair value and vesting period of the SIP:

Share type	Award date	Vesting date	No. of shares[1]	Fair value per share £	Charge for year ended 31 January 2015 £m
Partnership shares	29 August 2014	29 August 2015	2,171,973	0.23	0.2
Matching shares	29 August 2014	29 August 2018	1,802,276	2.58	0.5
			3,974,249		**0.7**

1 The number of shares shown above is the estimated number as at 31 January 2015.

The SIP was valued using a Black Scholes model and 21% volatility assumption to calculate the fair value using a risk-free interest rate for the year ended 31 January 2015 of 0.55%.

The expected volatility reflects the assumption that the historical volatility is indicative of future trends which may not necessarily be the actual outcome.

35 Ultimate parent undertaking and controlling party

Following the admission of AA plc to the London Stock Exchange on 26 June 2014, AA plc became the ultimate controlling party and parent undertaking of the Group.

36 Accounting standards, amendments and interpretations

New accounting standards, amendments and interpretations adopted in the year

In the year ended 31 January 2015 the Group did not adopt any new standards or amendments issued by the IASB or interpretations issued by the IFRS Interpretations Committee (IFRS IC) that have had a material impact on the consolidated financial statements. Other new standards, amendments and interpretations adopted, that have not had a material impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements, were:

	Effective date
› IFRS 10, IFRS 12 and IAS 27 Investment Entities (Amendments)	1 January 2014
› IFRS 11 Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11	1 January 2014
› IFRS 12 Disclosure of interests in other entities	1 January 2014
› IAS 28 (revised 2011), Associates and Joint ventures	1 January 2014
› IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32	1 January 2014
› IAS 36 Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36	1 January 2014
› IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39	1 January 2014
› IFRIC 21 Levies	1 January 2014

New accounting standards, amendments and interpretations not yet adopted

A number of new standards, amendments and interpretations, which have not been applied in preparing these financial statements, have been issued and are effective for annual reports beginning after 1 February 2014:

	Effective date
› IAS 19 Defined Benefit Plans: Employee Contributions – Amendments to IAS 19	1 July 2014
› IFRS 11 Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11	1 January 2016
› IFRS 14 Regulatory Deferral Accounts	1 January 2016
› IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38	1 January 2016
› IAS 27 Equity Method in Separate Financial Statements – Amendments to IAS 27	1 January 2016
› IFRS 15 Revenue from Contracts with Customers	1 January 2017
› IFRS 9 Financial Instruments	1 January 2018

37 Events after the reporting period

The Board has approved their intention to raise £200m of additional equity and £735m of new loan notes, using the proceeds combined with existing cash resources to pay off all of the remaining £175m of PIK notes, all £655m of the Class B notes and £209m of the Senior Term Facility.

As announced in the March Budget new anti-avoidance legislation will be introduced to reduce, in certain circumstances, the ability of companies to utilise brought forward losses after 18 March 2015. Until final legislation has been enacted it is uncertain whether the group's losses, and the £22m of deferred tax provided on them, will be affected by this change but we will continue to review the value of the asset as information becomes available going forward.

Company balance sheet

as at 31 January

	Note	**2015 £m**	2014 £m
Fixed assets			
Investment in subsidiaries	2	**798.7**	799.5
Current assets			
Debtors	3	**3.9**	1.9
Cash at bank and in hand	4	**33.7**	56.9
		37.6	58.8
Creditors falling due within one year	5	**(176.0)**	(352.7)
Net current liabilities		**(138.4)**	(293.9)
Total assets less current liabilities		**660.3**	505.6
Creditors falling due in more than one year	6	**(1.0)**	(1.6)
Net assets		**659.3**	504.0
Capital and reserves			
Called up share capital	7	**0.6**	0.2
Share premium		**199.7**	0.8
Profit and loss account		**459.0**	503.0
Total capital employed	8	**659.3**	504.0

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

Bob Mackenzie
Executive Chairman

Martin Clarke
Chief Financial Officer

The accompanying notes are an integral part of this Company balance sheet.

Notes to the Company financial statements

1 Company accounting policies

a) Accounting convention

The Company financial statements are prepared under the historical cost convention and in accordance with applicable UK generally accepted accounting standards as defined in the Companies Act 2006 section 464 and have been applied consistently across all periods.

Under section s408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

b) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the profit and loss account.

c) Investments

Fixed asset investments are included in the balance sheet at cost, less any provisions for permanent impairment.

Investments in Group undertakings are stated at the lower of cost and net realisable value.

The carrying amounts of the Company's assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its income-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account unless they arise on a previously revalued fixed asset.

The recoverable amount of fixed assets is the greater of their net realisable value and value in use. In assessing value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the rate of return expected on an investment of equal risk. For an asset that does not generate largely independent income streams, the recoverable amount is determined for the income-generating unit to which the asset belongs.

d) Borrowings

All borrowings are initially stated at the fair value of the consideration received after deduction of issue costs. Issue costs are charged to the profit and loss account over the term of the borrowings and represent a constant proportion of the balance of capital repayments outstanding.

2 Investments

	2015 £m	2014 £m
At 1 February	**799.5**	20.5
Additions	**–**	5.0
Adjustment to prior year acquisitions	**(0.8)**	–
Increase from release of intercompany receivable	**–**	1,641.6
Impairment of investment	**–**	(867.6)
At 31 January	**798.7**	799.5

On 2 July 2013 the Company acquired the entire share capital of AA Reinsurance Company Limited at a cost of £2.5m as part of a Group reorganisation.

As part of the whole business securitisation (WBS), the Company entered into a deed of release to release AA Mid Co Limited's liability to it of £1,641.6m, resulting in an increase to the value of the Company's investment. Following the subsequent payment by AA Mid Co Limited of a dividend of £3.9bn the investment held by the Company was impaired by £867.6m. This impairment has been recognised within the profit and loss account.

On 16 January 2014 the Group acquired the entire share capital of VVCR Europe Holding B.V, a provider of driving services. The consideration for the transaction (including costs) of £2.5m was settled in cash, with the exception of £1.8m deferred consideration to be settled in the future. In the year ended 31 January 2015, the investment in VVCR Europe Holding B.V was adjusted by £0.8m reflecting the lower amount of deferred consideration now expected to be paid.

Notes to the Company financial statements continued

3 Debtors

	2015 £m	2014 £m
Trade debtors	**0.1**	–
Group relief receivable	**3.8**	1.9
	3.9	1.9

4 Cash

	2015 £m	2014 £m
Cash – unrestricted	**15.2**	1.5
Cash – restricted	**18.5**	55.4
	33.7	56.9

Cash – restricted includes £18.5m (2014: £55.4m) held as pre-funded interest to cover interest payments on the PIK notes held by subsidiary undertakings and cannot be used for any other purpose.

5 Creditors falling due within one year

	2015 £m	2014 £m
Amounts owed to subsidiary undertakings	**174.8**	352.2
Accruals	**1.2**	0.3
Other creditors	**–**	0.2
	176.0	352.7

The terms of the amounts owed to subsidiary undertakings reflect the terms on the PIK notes held by a subsidiary undertaking. In the year ended 31 January 2015, £175.0m of PIK notes were repaid. These amounts are unsecured, have an interest rate of 9.5% and are repayable on 6 November 2019.

6 Creditors falling due after one year

	2015 £m	2014 £m
Other creditors	**1.0**	1.6

All amounts are due within five years.

7 Share capital

	2015 £m	2014 £m
Allotted, called up and fully paid		
1,000,000 'A' ordinary shares of £0.10 each	–	0.1
1,015,344 'B' ordinary shares of £0.10 each	–	0.1
554,000,001 ordinary shares of £0.001 each	**0.6**	–
	0.6	0.2

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

On 17 June 2014, the A and B ordinary shares were reorganised from 2,015,344 £0.10 shares to 201,534,400 ordinary shares of £0.001 each.

On 20 June 2014, the Company undertook a bonus issue of 267,745,600 shares of £0.001 resulting in a transfer of £0.3m from its share premium account to share capital.

On 26 June 2014, the Company issued 84,720,001 shares at a premium of £199.2m including issue costs.

The Company also issued 24 million Management Value Participation Shares (see note 23 of the consolidated financial statements for further information on these shares).

8 Reconciliation of movements in shareholders' funds

	2015 £m	2014 £m
(Loss)/profit for the financial year	**(44.0)**	3,074.6
Capital contribution	–	0.2
Dividends paid	–	(2,571.9)
Issue of share capital	**199.3**	–
Net change in shareholders' funds	**155.3**	502.9
Shareholders' funds at 1 February	**504.0**	1.1
Shareholders' funds at 31 January	**659.3**	504.0

Profit for the financial year comprises administrative operating costs of £0.6m, interest receivable of £0.4m, exceptional costs of £13.8m relating to the IPO, intercompany interest payable of £38.2m and a tax credit of £8.2m.

In the prior year, profit for the financial year comprised dividends received of £3,948.5m less impairment charges of £867.6m (see note 2), intercompany interest payable of £8.2m and a tax credit of £1.9m.

Intercompany interest payable relates to PIK notes.

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