Financial review

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

Martin Clarke
Chief Financial Officer

Revenue

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

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

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

Trading EBITDA

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

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

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

Operating profit

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

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

Items not allocated to a segment relate to transactions that do not form part of the on-going segment performance and include transactions which are one-off in nature. These principally related to the difference between the cash contributions to the pension schemes for on-going service and the calculated annual service cost. For the year ended 31 January 2014, there was a one-off benefit of £12.4 million relating to the closure of the Irish pension scheme that is not expected to reoccur (see note 25).

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

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

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

Net finance costs

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

Taxation

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

Profit and earnings per share

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

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

Cash flow and liquidity

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

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

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

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

Financial review
continued

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

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

Net debt, financing transactions and whole business securitisation

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

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

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

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

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

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

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

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

Net debt

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

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

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

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

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

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

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

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

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

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

Pensions

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

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

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

Martin Clarke
Chief Financial Officer

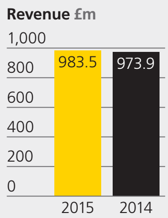
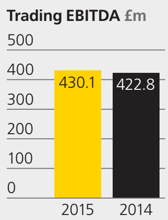
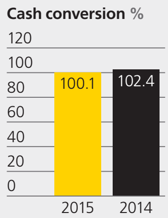
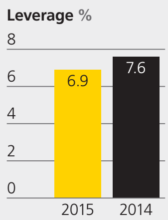
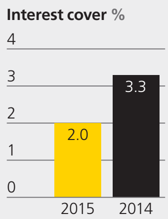
Our performance

Key **performance** indicators

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

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

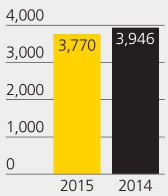
Achieve strong financial performance leading to the delivery of sustainable shareholder returns

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

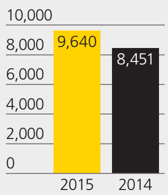
Strengthen the AA as the pre-eminent motoring services organisation in the UK and revolutionise customer experience

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

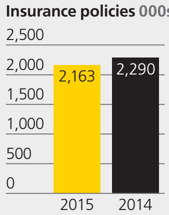
Personal members 000s



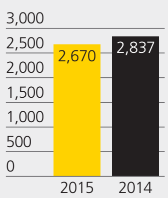
Business customers 000s



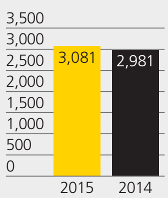
Insurance policies 000s



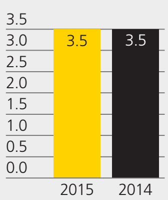
Franchised driving instructors



Patrols



Breakdowns attended
Millions



Create shareholder value

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

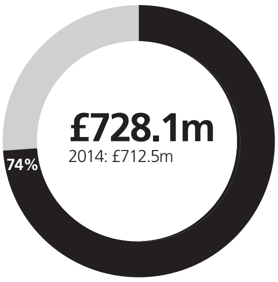
Read about our **Financial performance** on **p20**
Read about our **Corporate Responsibility report** on **p32**

Our performance
continued

Roadside Assistance

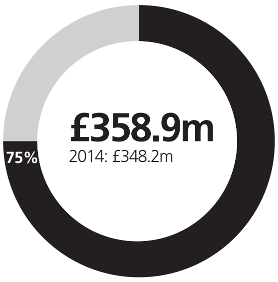
The Roadside Assistance division is the largest in the AA **contributing £358.9 million, which amounts to 75% of the Group's Trading EBITDA[1].**

Revenue



Percentage of Group revenue

Trading EBITDA



Percentage of Group Trading EBITDA[1]

Trading EBITDA margin
49.3%
2014: 48.9%

Average income per Business Customer
£19
2014: £21

Personal Members
3,770,000
2014: 3,946,000

Breakdowns attended
3.5m
2014: 3.5m

Business Customers
9,640,000
2014: 8,451,000

Average income per Personal Member
£135
2014: £126

Headlines

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

Overview

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

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

Financial performance

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

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

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

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

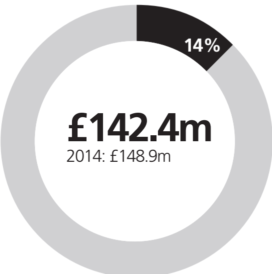
Trading EBITDA increased by £10.7 million to £358.9 million, mostly from the improvement in revenue. Trading EBITDA margin increased from 48.9% to 49.3%. This was a strong performance in view of the slight increase in the overall costs of delivering roadside assistance services owing to higher spend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

1 Excluding Head Office costs.

Insurance Services

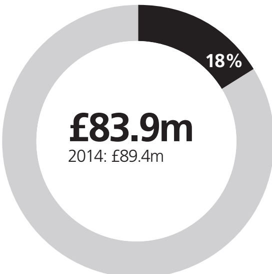
The Insurance Services division **contributes 18% of the Group's Trading EBITDA[1] at £83.9 million**.

Revenue



Percentage of Group revenue

Trading EBITDA



Percentage of Group Trading EBITDA[1]

Trading EBITDA margin

58.9%
2014: 60.0%

Policy numbers

2,163,000
2014: 2,290,000

Average income per policy

£66
2014: £65

Headlines

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

Overview

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

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

Financial performance

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

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

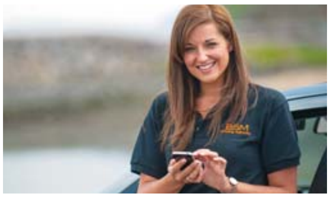
The investment in marketing to secure these additional new customers resulted in a lower Trading EBITDA margin. This was offset slightly by improvements in efficiency within our contact centres.

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

1 Excluding Head Office costs.

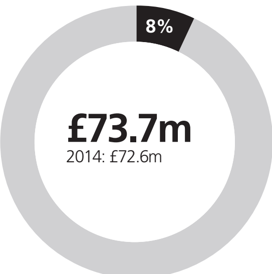
Our performance
continued

Driving Services

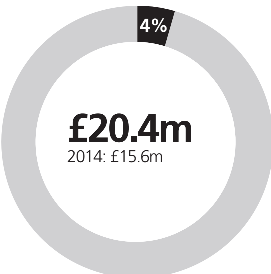
The Driving Services division provided **£20.4m of Group Trading EBITDA**. This division comprises our Driving School business and DriveTech. Our driving school business comprises the AA Driving School and the British School of Motoring (BSM) which are the two largest driving schools in the UK with **2,670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

Revenue



Percentage of Group revenue

Trading EBITDA



Percentage of Group Trading EBITDA[1]

Trading EBITDA margin

27.7%

2014: 21.5%

Driving Instructors

2,670

2014: 2,837

Headlines

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

Overview

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

Financial performance

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

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

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

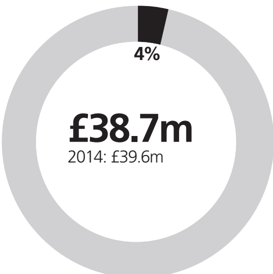
1 Excluding Head Office costs

Ireland

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

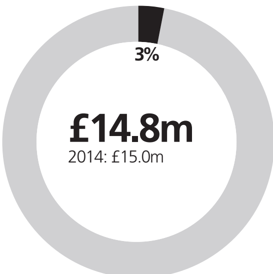
Roadside Assistance and Insurance Services are the largest parts of our business in Ireland.

Revenue



Percentage of Group revenue

Trading EBITDA



Percentage of Group Trading EBITDA[1]

Trading EBITDA margin

38.2%

2014: 37.9%

Personal Members

119,000

2014: 115,000

Insurance policy numbers

178,000

2014: 172,000

Headlines

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

Financial performance

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

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

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

1 Excluding Head Office costs

Risk **management**

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

AA plc board and management responsibilities

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

Risk management approach and process

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

- Board determination of the risks that the organisation is willing to take to achieve its objectives (the risk appetite)
- Identification of the principal risks by the Board and executive management team
- Active management or mitigation of principal risks to reduce the likelihood of their incidence or impact
- An effective risk culture with risk management embedded in the business
- The regular review and updating of risk registers including the assessment of risks and their respective controls
- Timely and accurate reporting of incidents and near misses
- The operation and reporting of management 'snap checks' (risk control tests) to confirm the effective operation of key controls
- The implementation and tracking to resolution of management actions for unacceptable risks, deficient controls, incidents and failed 'snap checks'
- The reporting of Key Risk Indicators (KRIs)

Risk appetite

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

Principal Risks

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

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

Risk model

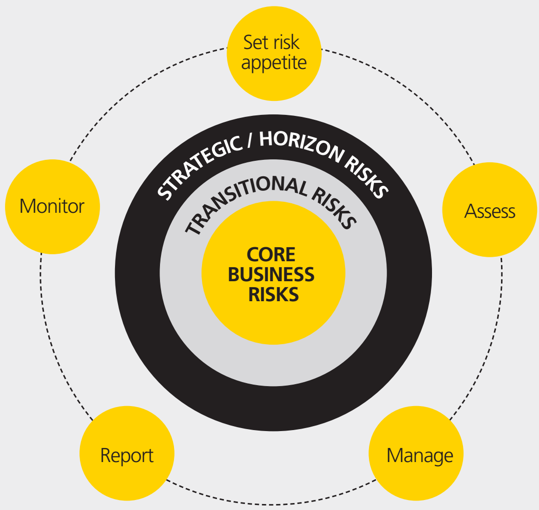
The AA uses a bullseye risk model in identifying and ascertaining the risks to the organisation. This considers core, transitional, strategic and horizon/emerging risks.

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

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

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

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



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

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

The risks listed do not comprise all those associated with the AA, and are not set out in any order of priority. Additional risks and uncertainties not presently known to management or currently deemed to be less material may also have an adverse effect on the business.

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

Our impact

Corporate **responsibility**

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

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

Relationships

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

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

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

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

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

AA Charitable Trust (Registered charity 1125119)

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

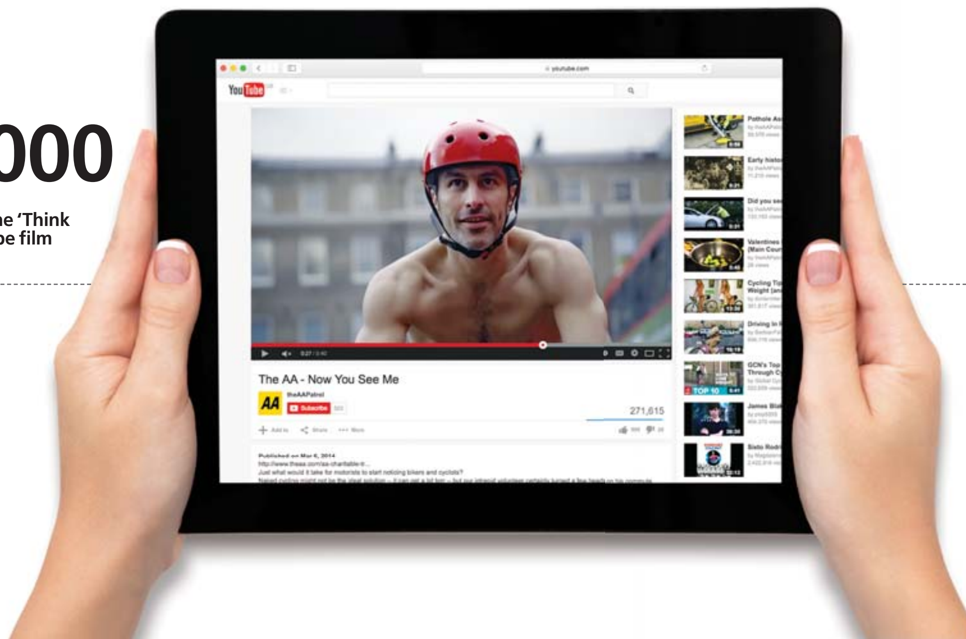
The Trust has funded two types of free driver improvement courses: Drive Confident, which aims to help nervous and lapsed drivers drive with renewed confidence and competence; and Drive Smart, which helps young "at risk" drivers learn safer and more eco-friendly driving techniques. During the year the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

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

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

250,000

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



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

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

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

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

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

Roadside safety

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

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

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

Representing the motorist

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

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

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

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

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

Our AA/Populus panel has over 150,000 members

Supporting the Help for Heroes 4x4 rally

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

Corporate responsibility
continued

Resources

Our carbon footprint boundaries identify the scope of the data we monitor and are deemed material to our environmental impact. The 2014/15 data forms the baseline for our greenhouse gas ("GHG") footprint; the Group's total GHG emissions for the year is 42,230 tCO_2e (see table opposite) largely from operational fuel consumption from our roadside service.

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

The Group's total GHG emissions for the year is 42,230 tCO_2e, with the operational fleet accounting for 74% of these emissions. The carbon footprint of the scoped property portfolio amounts to 9,320 tCO_2e, representing 22% of the Group's total footprint. 96% of emissions from property were emitted from UK sites.

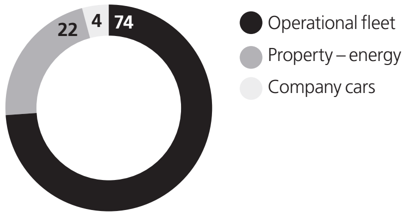
With regard to fleet renewal and servicing, all vehicles are serviced in accordance with manufacturer requirements through a third-party workshop network or at main dealerships. Where required, additional checks are undertaken in line with relevant legislation for the heavy commercial fleet and other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

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

Emission source	GHG emissions (tCO_2e)
Combustion of fuel and operation of facilities ("Scope 1")	34,702.51
Electricity, heat, steam and cooling purchased for own use ("Scope 2")	7,527.64
Total footprint	42,230.15
Intensity measurement 1 – property (tCO_2/'000 SQ ft)	0.012
Intensity measurement 2 – All operational fleet (tCO_2 or litres/total no. of operational jobs)	0.027

The AA carbon footprint (%)

Category	Emission source	tCO_2e	% of emissions
Operational fleet	Scope 1	31,085	74
Company cars	Scope 1	1,825	4
Property – energy	Scope 1 & 2	9,320	22



507

Number of total fleet replaced in 2014

4 years

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

+110

new vehicles