5 April 2016

AA plc results for the year ended 31 January 2016

- Results in line with expectations with strong operational cash generation
- Transformation firmly on track - early benefits in Roadside Assistance
- Greater confidence in growth potential

	2016	2015
Revenue (£m) [1]	963	967
Trading EBITDA[2] (£m)	415	429
Trading EBITDA margin[3] (%)	43.1	44.4
Operating profit (£m)	305	326
Basic EPS (p)	1.0	13.3
Adjusted basic EPS[4](p)	23.2	23.3
Cash conversion[5] (%)	101	97
Dividends per share (p)	9	-

Notes

1. Excluding the Glass business
2. Trading EBITDA: Earnings before interest, tax, depreciation and amortisation excluding exceptional items, items not allocated to a business segment and the Glass business
3. Trading EBITDA margin: Trading EBITDA divided by revenue excluding the Glass business
4. Adjusted basic EPS: Earnings per share adjusted for a number of one-offs of which the largest are exceptional items, items not allocated to a segment, the amortisation of debt issue fees, penalties on early repayment of debt and double running interest costs on Class B/B2 notes
5. Cash conversion: Net cash inflows from operating activities before tax and exceptional items divided by Trading EBITDA

- Overall revenue[1] reduced 0.4% to £963m. However, revenue in Roadside Assistance rose 1.8% to £724m, while, as expected, income from Insurance Services, Driving Services and Ireland declined.
- Group Trading EBITDA[2] reduced 3.3% to £415m in line with expectations. We increased Roadside EBITDA by 0.8% to £361m and cut overall costs by £8m but this was offset by lower contributions from Insurance Services and Ireland (due to adverse foreign exchange movements), new IT operating costs, a full year of PLC costs, and investment in marketing and diagnostic technology. The EBITDA margin[3] was therefore also slightly lower than last year at 43.1%.
- Profit after tax was £6m (2015: £69m) after a net cost of £85m relating to the refinancing.
- Adjusted basic EPS[4] were 23.2p (2015: 23.3p) with the total dividend covered 2.6 times.
- Cash conversion[5] was strong at 101% before tax and exceptional items. Net cash flow was £90m before dividends, one-off refinancing costs and the purchase of our own shares for an employee incentive programme. This was achieved despite the abnormally high level of capital expenditure relating to the transformation. The refinancing, completed on 31 July 2015, resulted in a reduction of annual cash interest costs of £45m, a decline in the net debt to EBITDA ratio from 6.9x to 6.8x and facilitated our ability to pay dividends.
- The Board has recommended total dividends in respect of the 2016 financial year of 9p per share including the interim dividend of 3.5p already paid.

Strategic developments in year one of transformation

- Strong performance in Roadside Assistance.
  - Retention up to 81% (2015: 79%)
  - Roadside Assistance personal Members numbered 3,673k (2015: 3,770k) with a slowing in the annual rate of decline to -2.6% (2015: -4.5%). The decline in the second half of the year was -1.4% (2015: -2.8%).
  - Average income per Member rose 4.4% to £141 (2015: £135).
  - Business customers rose 6% to 10,216k (2015: 9,640k) principally as a result of winning the Lex Autoleasing contract.

- Good progress in transformation
  - Marketing developments, including new services and loyalty rewards for Members, are starting to create a stronger Membership proposition, which was reinforced by the first brand advertising campaign in eight years.
  - Significant progress on digital transformation includes an increased use of the breakdown app (now used in 11% of personal Members' breakdowns); the launch of MyAA, our online portal for Members; and, the imminent relaunch of the commercial website.
  - IT systems transformation is on time and budget and the marketing package of the new customer relationship management system (CRM) was launched in March, ahead of plan, with the deployment of the remaining CRM to follow.
  - Productivity improvements in operations are delivering higher service levels and will lead to lower costs.
  - Restructuring has already delivered £8m of the £40m annualised savings expected from the 2019 financial year.
- Positive strategic developments
  - The early trading of the recently launched Insurance Underwriter and the Financial Services partnership with Bank of Ireland is encouraging.
  - Connected car development is underway following the establishment of the Intelematics Europe JV and Trakm8 roll-out for Fleet and Leasing customers.

Outlook

- We have made a positive start to the 2017 financial year.
- Based on the success of last year's brand advertising campaign and other marketing actions, we will continue to invest in brand advertising and product development in the 2017 financial year.
- A shift in the phasing of the transformation capital expenditure will lead to the investment of approximately £65m in the 2017 financial year following lower than expected spend of £54m in the 2016 financial year. The total transformation capital expenditure will remain unchanged at £128m over three years.
- We continue to target cost savings off the 2015 base of at least £40m per annum from the 2019 financial year.
- We expect net debt reduction in the 2017 financial year to be relatively modest. Thereafter, as we revert to more normalised levels of capital expenditure, we expect to accelerate deleveraging.

Bob Mackenzie, Executive Chairman, commented:

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

"The increase in retention and the slowing of the historic rate of decline in personal Members at this early stage in the transformation demonstrates the strength of our brand, the value of our services and the responsiveness of the business to change. We will continue to invest across the business, updating and enhancing our customer offer, improving systems and our services, but remain on track to deliver annual savings of at least £40m off the cost base from the 2019 financial year.

"The Board's confidence in the business, combined with the substantial reduction in the annual cash interest costs achieved by the refinancing, has led them to recommend the payment of a total dividend of 9 pence in respect of the 2016 financial year. With stronger foundations and the significant potential we see across the business, including our newly launched Insurance Underwriter and Financial Services partnership, we look to the future with confidence. We expect to begin to realise the very substantial benefits of this transformation in the 2018 financial year."

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Presentation

A presentation by Bob Mackenzie, Executive Chairman, and Martin Clarke, CFO, will be held for analysts, investors and bond holders at 9.30am today at London Stock Exchange, 10 Paternoster Square, London EC4M 7LS. It will also be available on the AA's website at www.theaa.com

- Dial-in to the presentation: Webcast audio dial in: +44 20 3059 8125, Password: The AA
- Replay except from the US: +44 121 260 4861; from the US: 1 844 2308 058; Code: 1636186#
- Link to the webcast: http://www.investis-live.com/aa/56d9a0749124330e000d706b/fy-16

Executive Chairman's statement

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

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

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

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

Our strategy

We set out three strategic priorities at the time of our IPO in June 2014 and in March 2015 we laid out the objectives and investment needed to deliver them. We have made good progress in our first full year since the IPO and are now well on our way to turning the AA into the UK's pre-eminent Membership services organisation and taking advantage of technical opportunities.

The progression of the transformation is as follows:

- **Year 1** (**2016 financial year): strengthening the foundations.** Our achievements are discussed in more detail below.
- **Year 2 (2017 financial year): building the momentum for change.** As expected this is another year of investment with further significant capital expenditure related to the transformation. All of this will create momentum for the following year when the benefits will begin to be realised. In addition, the focus on productivity and efficiency throughout the business will continue to generate savings.
- **Year 3 (2018 financial year): beginning to realise the transformation.** We expect positive trends in revenue growth and cost savings to be clear. This will be the final year of our transformation and associated capital expenditure investments are expected to be much lower than in the previous two years. We will start to apply our significant cash generation to a programme of deleveraging.
- **Year 4 (2019 financial year): delivering growth.** After three years of investment in the transformation, we believe that the AA will be strengthened and revolutionised resulting in revenue growth, cost savings, enhanced profitability and lower net debt. The transformation will increase the value we deliver to our Members, customers and shareholders.

Delivering our strategic priorities in year one of the transformation

In this past year, the first of our transformation, we have made significant progress against the objectives by which we expect to deliver our strategic priorities. These are set out below.

***Priority 1: Strengthen the AA's foundations to become the pre-eminent Membership services organisation in the UK* by reversing the effect of years of under-investment.**

The progress against the four strategic objectives to deliver this priority is as follows:

1. **Grow the core Roadside Assistance business by reversing the decline in Membership and increasing income per Member.** We are encouraged by the improvement in retention, by two percentage points compared with last year, and the slowing of the decline in personal Members to 2.6% compared with 4.5% last year. The decline in the second half of the year was 1.4% compared with 2.8% in the corresponding period in the prior year. The investment in the brand, improved marketing, and better retention tools are all having the positive effect we planned.

2. **Evolve the Insurance and Financial Services business models based on the strength of our brand and the value we offer our customers**. We are encouraged by the progress we are seeing in both these new businesses and we expect them to become profitable in the medium term.

   The Insurance Underwriter was launched on 30 January 2016 and our first policies have been written based on our unique data sources enabling more effective pricing of risk. The business benefits from our powerful brand, new IT systems and an experienced management team. We will initially focus on AA Members and build the business over the next few years supported by a significant level of reinsurance to mitigate risk.

   We relaunched AA-branded financial services through our 10-year exclusive arrangement with Bank of Ireland (BOI UK). We intend to rebuild our position in a market which was previously highly successful for the AA by combining our marketing strength with the financial services expertise of BOI UK.

3. **Improve our business customer positioning through partnerships, underpinned by our high service levels.** Our leading position in business-to-business Roadside Assistance for the Manufacturing, Fleet and Leasing and Added Value Accounts markets, lends scale to our operations and provides a platform for innovation across the industry. Our new contract with Lex Autoleasing, the UK's biggest leasing company, adds 280,000 customer vehicles and 50 patrols helping to maintain high service standards while optimising costs.

4. **Capture opportunities in adjacent sectors based on the strength and potential of the brand.** The power of the AA brand, our track record in innovation and strong business partnerships lies behind the creation of a joint venture in India with TVS Automobile Solutions. We expect to remain focused on providing breakdown services for the rapidly-growing business market in which our relationships with multi-national manufacturers are mutually beneficial.

Priority 2: Revolutionise the customer experience through investing in and embracing new technologies.

We are already increasing the value of Membership and generating savings by investing in our patrols, brand, IT systems and digital capabilities. Progress against our three objectives to deliver this strategic priority is as follows:

1. **Invest in systems, people and processes to improve our customers' and Members' experience and our efficiency**. The critical IT transformation is on time and budget and includes the following:

   - The new IT infrastructure which is supporting our back-office and call centre systems. This establishes a sound base on which to build new operating systems and achieves greater efficiency and smoother processes.

- The marketing package of the new Customer Relationship Management system (CRM), went live in March, ahead of plan. This enables better segmented, personalised and relevant marketing which will reduce the quantity but increase the effectiveness of communication. The remainder of the CRM will follow with uploading of data in the second half of the year to provide an integrated sales platform. This will reduce time and costs for call centres; result in a smoother customer experience; and, increase the number of products per customer from the current level.

- New technology is improving the effectiveness of our patrols. In addition to the Bosch diagnostic technology, new smartphones and tablets improve despatch efficiencies, give them critical information ahead of and during a job and save time spent on administration. This is improving diagnostics, repair rates, response times and number of jobs done while offering customers a better service. Plans for the 2017 financial year include new battery testing equipment. This will improve the output and timing of battery testing. The launch of the universal spare wheel will also significantly improve productivity and benefit customers.

- Insurer Hosted Pricing will enable more frequent insurance price changes. This will allow our in house Underwriter and, in time, other members of the insurer panel to tailor prices using enhanced data and to change them more frequently. We also expect it to improve performance in our broking business.

2. **Deliver a step change in our digital capability.** Our digital investment is improving the attractiveness and efficiency of the AA's products and processes by making them more immediate, intuitive and relevant. Achievements in the past year include the following:

    - Encouraging take up of the app, which is used in 11% of personal Members' breakdown. This is lowering the number of calls to call centres and, as a result, reducing costs.

    - The first version of 'My AA' enables customers to view and manage their AA products in a single profile. This first step towards self-service will modernise customer experience, deliver savings and increase online sales.

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

    - The AA is pioneering the use of connected car technology. In addition to the direct benefits to drivers of monitoring safety, security, logistics and driving costs, this technology will give the AA the capability to improve prognostics, diagnostics, accuracy of deployment and speed of repair. There is also potential for its use by our Insurance Underwriter in pricing risk. Our Intelematics Europe joint venture and the launch of Trakm8 telematics to our Fleet and Leasing customers significantly strengthens our ability to innovate and take a leading position in the development of car connectivity.

3. **Transform Membership, the brand and our commercial model to retain existing Members, win new Members and sell products across all our businesses.** We are invigorating the value of AA Membership as follows:

    - Our brand advertising TV campaign, the first in eight years, reinforced our marketing messages highlighting the AA's expertise and product range.

    - We have improved the Membership proposition to attract new and to retain existing Members as well as drive the sale of additional products to them. We have also introduced an improved pricing model to ensure our products are more rationally tiered. New benefits for Members, such as 20% discounts at a range of Mitchell & Butlers' outlets, have been well received and there has been a pickup in usage of the discounts available at MOTO service stations.

    - We have also expanded services such as AA Tyres and Automyze which reduce the administrative burden for motorists.

Priority 3: Reduce Group Borrowings and the associated interest costs.

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

In the refinancing completed in July, we raised £199m of equity and issued new bonds of £735m allowing the retirement of the most expensive elements of the debt, the pre-existing Class B and PIK notes that we inherited from the previous private equity owners. While the refinancing generated significant one-off finance charges, it reduced the annual cash cost of servicing our debt by more than £45m per year. Net debt was £2,809m at 31 January 2016, compared with £2,967m at 31 January 2015. The refinancing also facilitated the payment of dividends.

The financial implications of the transformation

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

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

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

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

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

Dividend

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

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

It remains our intention to pursue a progressive dividend policy.

Outlook

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

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

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

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

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

Business performance review

Roadside Assistance

Roadside Assistance contributed 75% of Group revenue and 76% of trading EBITDA. Its performance is driven by our highly valued personal Member base. However, business customers provide close to half the jobs for the patrol force, supporting the scale of our operations, which is critical to our success.

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

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

Results

	2016	2015
Revenue (£m)	**724**	711
Trading EBITDA	**361**	358
Trading EBITDA margin (%)	**49.9**	50.4
Roadside Assistance personal Members (000s)	**3,673**	3,770
Average income per personal Member (£)	**141**	135
Personal Members excluding free Memberships (000s)	**3,331**	3,393
Average income per personal Members excluding free Memberships (£)	**156**	150
Business customers (000s)	**10,216**	9,640
Average income per Business customer (£)	**18**	19
Number of breakdowns[1] (m)	**3.4**	3.5

Roadside Assistance revenue of £724m grew 1.8%, driven by the increase in income per member, improved retention rates and a full year impact from the Volkswagen Group contract, launched in June 2014.

We have slowed the rate of decline of personal Members to -2.6% (to 3,673k) versus a decline of -4.5% last year. Average income per personal Member rose 4.4% compared with a rise of 7.1% in the prior year. It remains our intention to limit price increases.

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

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

In the business-to-business segment we grew revenue with a 6% increase in business customers driven by retention of contracts with Northgate and Toyota, the extension of our contract with Vauxhall, and winning of the Lex Autoleasing contract which started in January 2016. Lex Autoleasing, the UK's largest leasing company, added approximately 280,000 customer vehicles and increased our share of the Fleet and Leasing market to around 60%. The increase in customer numbers offset a lower average income per business customer resulting from the first full year effect of the Lloyds contract which we retained in March 2015.

We recognise the importance of our patrols in the service we offer and have invested considerably in giving them what they need to improve both their service and efficiency. We have invested in diagnostic and communications technology to reduce time spent on each job, to enhance the accuracy of identifying problems and to help ensure optimum resourcing. We have increased the repair rate to 82% during the past year.

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

Insurance Services (including Financial Services)

Insurance Services, which includes Financial Services, contributed 14% of Group revenue and 17% of Group trading EBITDA. We arranged 2.1m policies last year for motor insurance, home insurance and Home Services, providing emergency repairs to boilers, heating systems and other domestic installations.

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

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

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

Results

	2016	2015
Revenue (£m)	131	142
Trading EBITDA	78	84
Trading EBITDA margin (%)	59.5	59.2
Policy numbers in force[1] (000s)	2,074	2,163
Average income per policy (£)	63	66

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

Trading EBITDA, of £78m, reflected this decline and the credit card run off from the legacy financial services business which benefitted the prior year results by £5m. However, improvements in efficiency within our contact centres and lower marketing spend on aggregators helped offset these adverse effects.

Driving Services

This division which comprises Driving Schools and DriveTech contributed 7% of Group revenue and 4% of Group trading EBITDA. Through the AA and BSM brands the AA is the largest driving school in the UK whilst DriveTech is the market leader in providing speed awareness courses for Police forces in the UK and fleet training services.

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

Results

	2016	2015
Revenue (£m)	68	74
Trading EBITDA	19	20
Trading EBITDA margin (%)	27.9	27.0
Number of driving instructors (‘000s)	2,574	2,670

Driving Services revenue declined by £6m to £68m due to lower volumes in both Driving Schools and DriveTech. Whilst the overall number of people learning to drive in the market increased, Driving School revenue declined in line with the 3.6% fall in the number of franchised instructors. The continued buoyancy of the market has led to many instructors becoming independent. We are revamping the proposition for AA driving instructors and clarifying to learner drivers the advantages of association with the AA brand.

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

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

Ireland

AA Ireland contributed 4% of Group revenue and 3% of Group trading EBITDA. It is one of Ireland's leading consumer services businesses, providing insurance and breakdown cover.

Results

	2016	2015
Revenue (£m)	38	39
Trading EBITDA	13	15
Trading EBITDA margin (%)	34.2	38.5
Personal Members ('000s)	128	119
Insurance policies ('000s)	185	178

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

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

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

Financial review

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

Revenue

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

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

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

Trading EBITDA

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

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

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

Operating Profit

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

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

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

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

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

Finance Costs

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

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

Impact of refinancing on Income Statement

	2016 £m
Accelerated amortisation of debt issue fees	**18**
Penalties on early redemption of debt	**62**
Double running interest cost of Class B/B2 notes	**19**
Transfer from cashflow hedge reserve for extinguishment of cashflow hedge	**8**
Impact on finance costs	**107**
Transaction fees included in exceptional items	**4**
Impact on profit before tax	**111**
Tax at the effective rate of 23.5%	**(26)**
Reduction in profit after tax	**85**
Earnings per share impact of refinancing costs on Income Statement	**14.3p**

Impact of refinancing on Statement of Cash Flows

	2016 £m
Issue of Share Capital	**206**
Issue costs on share issuance	**(7)**
Proceeds from borrowings (Class B2 notes)	**735**
Issue costs on borrowings	**(16)**
Penalties on early redemption of debt	**(62)**
Repayment of bank loans	**(209)**
Repayment of PIK notes	**(175)**
Repayment of Class B notes	**(655)**
Other costs of transaction included in exceptional items	**(4)**
Double running interest cost of Class B/B2 notes	**(19)**
Net cash flows from refinancing	**(206)**

Taxation

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

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

Profit and Earnings per Share

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

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

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

Cash Flow and Liquidity

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

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

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

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

Capital Management

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

The Directors seek to achieve an appropriate balance between the higher return that is possible with borrowings and the advantages and security of equity funding. We aim to reduce both the amount of net debt and the cost of servicing it over time.

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

The capital structure at 31 January 2016 is summarised below:

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

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

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

Net Debt and Dividends

Year ended 31 January	2016 £m	2015 £m
Senior Term Facility	**454**	663
Class A notes	**1,725**	1,725
Less: AA Intermediate Co Limited group cash and cash equivalents	**(94)**	(262)
Net senior secured debt[1]	**2,085**	2,126
Class B notes	**-**	655
Class B2 notes	**735**	-
Finance lease obligations	**61**	51
Net debt excluding PIK notes[2]	**2,881**	2,832
PIK notes	**-**	175
Less: AA plc Group cash and cash equivalents[3]	**(72)**	(40)
Total net debt	**2,809**	2,967
Net debt ratio[4]	**6.8x**	6.9x
Class B2 leverage ratio[5]	**6.9x**	6.6x
Senior leverage ratio[6]	**5.0x**	4.9x
Class A free cash flow: debt service	**3.9x**	3.5x
Class B free cash flow: debt service	**2.4x**	2.2x

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

2 Principal amounts of the Senior Term Facility, Class A notes, Class 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.

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

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

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

The Class B2 note restrictions generally only permit the release of cash providing the fixed charge cover ratio after payment is more than 2:1 and providing that the aggregate payments do not exceed 50% of the accumulated consolidated net income.

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

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

1 Ratio of net senior secured debt to Trading EBITDA of AA Intermediate Co Limited group for the last 12 months. This excludes AA plc group cash and cash equivalents.

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

3 Ratio of fixed finance charges to Trading EBITDA

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

Pensions

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

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

Directors' responsibility statement

We confirm that to the best of our knowledge:

- The financial statements within the full Annual Report and Accounts, from which the financial information within this preliminary announcement has been extracted, are prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and

- The Annual Report and Accounts includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties faced by the Group.

Signed for and on behalf of the Board on 4 April 2016 by

Bob Mackenzie Executive Chairman	Martin Clarke Chief Financial Officer

Consolidated income statement

	Note	for the year ended 31 January 2016 £m	2015 £m
Revenue	2	**973**	984
Cost of sales		**(347)**	(346)
Gross profit		**626**	638
Administrative & marketing expenses		**(322)**	(313)
Share of profits of joint venture and associates, net of tax		**1**	1
Operating profit		**305**	326
Trading EBITDA	2	**415**	430
Items not allocated to a segment	2	**(18)**	(8)
Amortisation and depreciation	7,8	**(54)**	(48)
Exceptional items	2	**(38)**	(48)
Operating profit		**305**	326
Finance costs	3	**(289)**	(266)
Finance income	4	**1**	1
Profit before tax		**17**	61
Tax (expense) / credit	5	**(11)**	8
Profit for the year		**6**	69

Earnings per share from profit for the year

	Note	2016 pence	2015 pence
Basic	6	**1.0**	13.3
Diluted	6	**1.0**	13.3

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

Consolidated statement of comprehensive income

	for the year ended 31 January	
	2016	2015
	£m	£m
Profit for the year	**6**	69
Other comprehensive income on items that may be reclassified to profit and loss in subsequent years		
Exchange differences on translation of foreign operations	**1**	(1)
Effective portion of changes in fair value of cash flow hedges	**10**	(14)
Tax effect (expense)/credit	**(2)**	3
	9	(12)
Other comprehensive income on items that will not be reclassified to profit and loss in subsequent years		
Remeasurement on gains/(losses) on defined benefit schemes	**149**	(167)
Tax effect (expense)/credit	**(26)**	32
	123	(135)
Total other comprehensive income	**132**	(147)
Total comprehensive income for the year	**138**	(78)

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

Consolidated statement of financial position

	Note	as at 31 January 2016 £m	2015 £m
Non-current assets			
Goodwill and other intangible assets	7	**1,298**	1,257
Property, plant and equipment	8	**122**	100
Investments in joint ventures and associates		**10**	4
Deferred tax assets		**52**	81
Other receivables	9	**-**	21
		1,482	1,463
Current assets			
Inventories		**5**	5
Trade and other receivables	9	**172**	187
Current tax receivable		**-**	1
Cash and cash equivalents	10	**166**	302
		343	495
Total assets		**1,825**	1,958
Current liabilities			
Trade and other payables	11	**(518)**	(498)
Current tax payable		**(7)**	-
Provisions		**(8)**	(8)
		(533)	(506)
Non-current liabilities			
Borrowings and loans	12	**(2,920)**	(3,241)
Finance lease obligations		**(21)**	(16)
Defined benefit pension scheme net liabilities	14	**(296)**	(434)
Provisions		**(7)**	(12)
Insurance technical provisions		**(4)**	(4)
		(3,248)	(3,707)
Total liabilities		**(3,781)**	(4,213)
Net liabilities		**(1,956)**	(2,255)
Equity			
Share capital		**1**	1
Share premium		**399**	200
Own shares		**(22)**	-
Currency translation reserve		**(1)**	(2)
Cashflow hedge reserve		**(10)**	(18)
Retained earnings		**(2,323)**	(2,436)
Total equity attributable to equity holders of the parent		**(1,956)**	(2,255)

Signed for and on behalf of the Board on 4 April 2016 by

Bob Mackenzie
Executive Chairman

Martin Clarke
Chief Financial Officer

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

Consolidated statement of changes in equity

	Attributable to the equity holders of the parent						
	Share capital £m	Share premium £m	Own shares £m	Currency translation reserve £m	Cashflow hedge reserve £m	Retained earnings £m	Total £m
At 1 February 2014	**-**	**1**	**-**	**(1)**	**(7)**	**(2,372)**	**(2,379)**
Profit for the year	-	-	-	-	-	69	69
Other comprehensive income	-	-	-	(1)	(11)	(135)	(147)
Total comprehensive income	-	-	-	(1)	(11)	(66)	(78)
Issue of share capital	1	199	-	-	-	-	200
Share-based payments	-	-	-	-	-	2	2
At 31 January 2015	**1**	**200**	**-**	**(2)**	**(18)**	**(2,436)**	**(2,255)**
Profit for the year	-	-	-	-	-	6	6
Other comprehensive income	-	-	-	1	8	123	132
Total comprehensive income	-	-	-	1	8	129	138
Dividends	-	-	-	-	-	(21)	(21)
Issue of share capital	-	199	-	-	-	-	199
Purchase of own shares	-	-	(22)	-	-	-	(22)
Share-based payments	-	-	-	-	-	5	5
At 31 January 2016	**1**	**399**	**(22)**	**(1)**	**(10)**	**(2,323)**	**(1,956)**

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

Consolidated statement of cash flows

	Note	for the year ended 31 January	
		2016	2015
		£m	£m
Profit before tax		**17**	61
Amortisation and deprecation		**54**	48
Net finance costs		**288**	265
Other adjustments to profit before tax		**12**	-
Working capital:			
Decrease / (increase) in trade and other receivables		**13**	(24)
Increase in trade and other payables		**6**	25
Decrease in provisions		**(6)**	(7)
Difference between pension charge and cash contributions		**(1)**	(9)
Total working capital adjustments		**12**	(15)
Net cash flows from operating activities before tax		**383**	359
Tax paid		**(2)**	(2)
Net cash flows from operating activities		**381**	357
Investing activities			
Capital expenditure		**(75)**	(37)
Proceeds from sale of fixed assets		**11**	15
Acquisitions and disposals, net of cash acquired or disposed of		**(8)**	-
Proceeds from fixed term investments – restricted		**-**	5
Interest received		**1**	1
Net cash flows used in investing activities		**(71)**	(16)
Financing activities			
Proceeds from borrowings		**735**	913
Issue costs on borrowings		**(16)**	(10)
Debt repayment penalties		**(62)**	(3)
Repayment of borrowings		**(1,039)**	(1,088)
Share capital issued		**199**	200
Refinancing transactions		**(183)**	12
Purchase of own shares		**(22)**	-
Interest paid on borrowings		**(178)**	(218)
Payment of finance lease capital		**(34)**	(31)
Payment of finance lease interest		**(8)**	(4)
Dividends paid		**(21)**	-
Net cash flows from financing activities		**(446)**	(241)
Net (decrease) / increase in cash and cash equivalents		**(136)**	100
Net foreign exchange differences		**-**	(1)
Cash and cash equivalents at start of year	10	**302**	203
Cash and cash equivalents at end of year	10	**166**	302

The cash flows from operating activities are stated net of cash outflows relating to exceptional items of £37m (2015: £57m). This relates to the cost of business transformation of £21m (2015: £nil), share issue costs of £1m (2015: £32m), re-financing of the Group's borrowings £4m (2015: £1m), acquisition earn-out payments of £nil (2015: £2m), non-recurring costs of IT system implementation and cost restructuring activities of £7m (2015: £18m) and onerous property provision lease costs in respect of vacant properties of £4m (2015: £4m).

Other adjustments to profit before tax of £12m (2015: £nil) include share of profit from joint ventures and associates of (£1m) (2015: (£1m)), share based payments of £5m (2015 £2m), loss on sale of fixed assets of £3m (2015: £nil), loss on disposal of subsidiary of £5m (2015: £nil) and other items of £nil (2015: (£1m)).

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

Notes to the consolidated financial statements

1 Basis of preparation

The financial information set out in this report does not constitute the Company's statutory accounts for the years ended 31 January 2016 or 2015, but is derived from those accounts. The statutory accounts for the year ended 31 January 2015 have been delivered to Companies House and those for 2016 will be delivered in due course. The Auditor has reported on those accounts; its Reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying its Report and did not contain a statement under s498(2) or (3) of the Companies Act 2006.

The financial information included in this preliminary announcement has been prepared on the same basis as set out in the 2016 Annual Report and Accounts.

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, as well as its Home Services and Financial Services activities.
- *Driving Services:* This segment contains the AA Driving School and the British School of Motoring, which are the two largest driving schools in the UK, as well as AA DriveTech, which provides driver training and educative programmes.
- *Ireland:* This segment competes in the same segment types as the AA UK business, with the largest parts of its business being Insurance Services and Roadside Assistance.
- *Insurance Underwriting:* This segment consists of a reinsurance company, which historically reinsured certain private motor insurance business and roadside assistance in support of other businesses within the Group.
- *Head Office costs:* This segment includes IT, finance, property and other back office support functions.

Segment performance is primarily evaluated using the Group’s key performance measure of Trading EBITDA. Trading EBITDA is profit after tax as reported adjusted for depreciation, amortisation, net finance costs, taxation, exceptional items and items not allocated to a segment and better reflects the Group’s underlying performance.

Items not allocated to a segment relate to transactions that do not form part of the on-going segment performance and include transactions which are one–off in nature. In the year ended 31 January 2016 these principally relate to the difference between the cash contributions to the pension schemes for on-going service and the calculated annual service cost and share-based payments (see note 32).

Depreciation, amortisation, exceptional items, net finance costs and tax expense are not allocated to individual segments as they are managed on a group basis.

Segmental information is not presented for items in the Consolidated Statement of Financial Position as management do not view this information on a segmental basis.

2 Segmental information *(continued)*

	2016 £m	2015 £m
Revenue		
Roadside Assistance	**724**	711
Insurance Services	**131**	142
Driving Services	**68**	74
Ireland	**38**	39
Insurance Underwriting	**2**	1
Trading Revenue	**963**	967
Revenue from business disposed of	**10**	17
Group Revenue	**973**	984
Trading EBITDA		
Roadside Assistance	**361**	358
Insurance Services	**78**	84
Driving Services	**19**	20
Ireland	**13**	15
Head Office costs	**(56)**	(48)
Trading EBITDA	**415**	429
EBITDA from business disposed of	**-**	1
Group Trading EBITDA	**415**	430
Items not allocated to a segment	**(18)**	(8)
Amortisation and depreciation	**(54)**	(48)
Exceptional items	**(38)**	(48)
Operating profit	**305**	326
Net finance costs	**(288)**	(265)
Profit before tax	**17**	61

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

During August 2015, AA plc group agreed to dispose of its windscreen replacement subsidiary Autowindshields (UK) Limited. Contracts were exchanged in August 2015 and the sale was completed by the end of the financial year. The results of this business have been presented above as business disposed of.

Exceptional costs include £5m for the loss on disposal of Autowindshields (UK) Limited (2015:£nil), £4m relating to finance transactions (2105: £1m), £22m relating to business transformation costs (2015: £nil) and £7m mainly relating to non-recurring costs for IT system implementation, onerous property lease costs, loss on disposal of fixed assets and cost restructuring activities (2015: £14m). In addition, in the prior year, £33m related to IPO costs.

3 Finance costs

	2016 £m	2015 £m
Interest on external borrowings	**(178)**	(211)
Finance charges payable under finance leases	**(7)**	(4)
Penalties on early repayment of debt	**(62)**	(3)
Total cash finance costs	**(247)**	(218)
Amortisation of debt issue fees	**(22)**	(30)
Transfer from cashflow hedge reserve for extinguishment of cashflow hedge	**(8)**	(7)
Net finance expense on defined benefit pension schemes	**(12)**	(11)
Total non-cash finance costs	**(42)**	(48)
Total finance costs	**(289)**	(266)

During the year, the Group repaid the original Class B notes of £655m and PIK notes of £175m (see note 13). As a result, the Group incurred early repayment penalties of £58m (2015: £nil) for the Class B notes and £4m (2015: £3m) for the PIK notes.

The Group also repaid £209m of the Senior Term Facility, following which, the Group has transferred the fair value of the cashflow hedges related to the repayment of £8m (2015: £7m) from other comprehensive income to the income statement.

Within interest on external borrowings is £13m (2015: £21m) of interest charged on the Senior Term Facility and £8m (2015: £10m) charged in relation to the interest rate swaps used to hedge the variable element of the Senior Term Facility (see note 13).

Also included within interest on external borrowings is £19m (2015: £nil) of interest costs relating to the double-running of the Class B/B2 notes from the time of issue of the Class B2 notes in April 2015 until the repayment of the Class B notes in July 2015.

Amortisation of debt issue fees includes £18m (2015: £21m) that was immediately written off following the repayment of borrowings.

4 Finance income

	2016 £m	2015 £m
Interest receivable	**1**	1
Total finance income	**1**	1

5 Tax

The major components of the income tax expense are:

	2016 £m	2015 £m
Consolidated income statement		
Current income tax		
Current income tax charge	**10**	1
	10	1
Deferred tax		
Effect of tax rate change on opening balances	**7**	-
Relating to origination and reversal of temporary differences – current year	**(6)**	(9)
	1	(9)
Tax expense / (credit) in the income statement	**11**	(8)

The Group has tax losses which arose in the UK of £92m (2015: £110m) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. In the prior year, following the IPO, a deferred tax asset of £22m was recognised on these tax losses as the Group expected to have sufficient taxable profits to be able to recover these losses.

6 Earnings per share

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

	2016	2015
Basic earnings per share:		
Profit after tax (£m)	**6**	69
Weighted average number of shares outstanding (millions)	**596**	520
Basic earnings per share (pence)	**1.0**	13.3

For diluted earnings per share, the weighted average number of ordinary shares is adjusted to assume conversion of all potential dilutive ordinary shares.

In the prior year, the potential dilutive ordinary shares related to the employee share scheme for the UK (SIP), where the share price at which shares were to be purchased and matching shares issued was expected to be less than the average market value of ordinary shares for the period from issue of the options to 31 January 2015. These shares were purchased and issued respectively in the current year so are no longer dilutive. Under the current year SIP, shares are purchased monthly at market value and matching shares issued contemporaneously and are therefore not dilutive.

The Group also has another class of potential dilutive ordinary shares relating to the MVP shares. However, as at 31 January 2016, based on average market value of ordinary shares for the year, these were not dilutive.

There are no further classes of share that are dilutive as at 31 January 2016.

	2016	2015
Weighted average number of ordinary shares in issue (millions)	**596**	520
Potentially dilutive shares under SIP (millions)	**-**	1
Weighted average number of diluted ordinary shares (millions)	**596**	521
Diluted earnings per share (pence)	**1.0**	13.3

6 Earnings per share *(continued)*

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

	2016	2015
Profit after tax as reported (£m)	**6**	69
Adjusted for:		
Exceptional items (£m)	**38**	48
Items not allocated to a segment (£m)	**18**	8
Write off of debt issue fees following refinancing (see note 3) (£m)	**18**	21
Penalties on early repayment of debt (see note 3) (£m)	**62**	3
Double-running interest cost of Class B/B2 notes (see note 3)(£m)	**19**	-
Transfer from cashflow hedge reserve for extinguishment of cashflow hedge (see note 3) (£m)	**8**	7
Tax expense / (credit) (£m)	**11**	(8)
Adjusted profit before tax (£m)	**180**	148
Tax at the effective rate of 23.5% (2015: 18.1%) (£m)	**(42)**	(27)
Adjusted profit after tax (£m)	**138**	121
Weighted average number of shares outstanding (millions)	**596**	520
Adjusted basic earnings per share (pence)	**23.2**	23.3
Weighted average number of diluted ordinary shares (millions)	**596**	521
Adjusted diluted earnings per share (pence)	**23.2**	23.2

Adjusted earnings per share adjusts profit after tax for items that are one-off in nature or relate to transactions that do not form part of the on-going segment performance.

7 Goodwill and other intangible assets

	Goodwill £m	Software £m	Total £m
Cost			
At 1 February 2014	1,199	100	1,299
Additions	-	31	31
Disposals	-	(2)	(2)
At 31 January 2015	**1,199**	**129**	**1,328**
Additions	-	64	64
Disposals	-	(2)	(2)
At 31 January 2016	**1,199**	**191**	**1,390**
Amortisation and impairment			
At 1 February 2014	**-**	**53**	**53**
Amortisation	-	20	20
Disposals	-	(2)	(2)
At 31 January 2015	**-**	**71**	**71**
Amortisation	-	23	23
Disposals	-	(2)	(2)
At 31 January 2016	**-**	**92**	**92**
Net book value			
At 31 January 2016	**1,199**	**99**	**1,298**
At 31 January 2015	1,199	58	1,257

Within software, £53m (2015: £10m) relates to assets under construction which are not amortised.

Software additions comprise of £13m (2015: £14m) in relation to internally developed assets and £51m (2015: £17m) in relation to separately acquired assets.

8 Property, plant and equipment

	Freehold Land & Buildings £m	Long Leasehold Land & Buildings £m	Vehicles £m	Plant & equipment £m	Total £m
Cost					
At 1 February 2014	24	10	66	104	204
Additions	-	-	62	5	67
Disposals	-	-	(36)	(1)	(37)
Exchange adjustments	-	-	-	(1)	(1)
At 31 January 2015	**24**	**10**	**92**	**107**	**233**
Additions	-	-	47	21	68
Disposals	-	-	(50)	(3)	(53)
At 31 January 2016	**24**	**10**	**89**	**125**	**248**
Depreciation and impairment					
At 1 February 2014	5	3	41	78	127
Charge for the year	1	1	16	10	28
Disposals	-	-	(20)	(1)	(21)
Exchange adjustments	-	-	-	(1)	(1)
At 31 January 2015	**6**	**4**	**37**	**86**	**133**
Charge for the year	1	-	21	9	31
Disposals	-	-	(36)	(2)	(38)
At 31 January 2016	**7**	**4**	**22**	**93**	**126**
Net book value					
At 31 January 2016	**17**	**6**	**67**	**32**	**122**
At 31 January 2015	18	6	55	21	100

The net book amount of vehicles includes £65m (2015: £54m) held under finance lease agreements. The accumulated depreciation on these assets is £19m (2015: £35m).

The net book amount of other assets includes £nil (2015: £nil) in respect of plant & machinery held under finance lease agreements. The accumulated depreciation on these assets is £8m (2015: £8m).

9 Trade and other receivables

	2016 £m	2015 £m
Current		
Trade receivables	**146**	156
Prepayments and accrued income	**22**	26
Other receivables	**4**	5
	172	187
Non-current		
Interest rate swap derivatives	**-**	21
	-	21

Included in trade receivables are amounts of £89m (2015: £89m) relating to amounts due from insurance broking customers.

10 Cash and cash equivalents

	2016 £m	2015 £m
Ring-fenced cash at bank and in hand – available	**74**	244
Ring-fenced cash at bank and in hand – restricted	**20**	18
Non ring-fenced cash at bank and in hand – available	**58**	15
Non ring-fenced cash at bank and in hand – restricted	**14**	25
	166	302

Ring-fenced cash and cash equivalents relate to cash held by AA Intermediate Co Limited and its subsidiaries. Dividends can only be paid to AA plc when certain debt to EBITDA and cashflow criteria are met.

Cash at bank and in hand – restricted includes £nil (2015: £19m) held as pre-funded interest to cover interest payments on the PIK notes (see note 13) and could not be used for any other purpose.

Cash at bank and in hand includes £34m (2015: £24m) held by and on behalf of the Group's insurance businesses which are subject to contractual or regulatory restrictions. These amounts are not readily available to be used for other purposes within the Group and include £7m held as part of the capital requirements of the new insurance underwriter.

11 Trade and other payables

	2016 £m	2015 £m
Trade payables	**110**	114
Other taxes and social security costs	**23**	25
Accruals	**67**	66
Deferred income	**248**	238
Other payables	**30**	20
Obligations under finance lease agreements	**40**	35
	518	498

Included in trade payables are amounts of £86m (2015: £85m) relating to amounts due to underwriters in respect of insurance broking activities.

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12 Borrowings and loans

	2016 £m	2015 £m
Borrowings (see note 13)	**2,893**	3,191
Interest rate and fuel swap used for hedging	**27**	50
	2,920	3,241

The interest rate swap liability is shown on a net basis as at 31 January 2016 as the liability is settled with each counterparty on a net basis. On a gross basis, the asset is £24m (2015: £21m) and the liability is £51m (2015: £50m).

13 Borrowings

	Expected maturity date	Interest rate	Principal £m	Issue costs £m	Amortised issue costs £m	Total at 31 January 2016 £m	Total at 31 January 2015 £m
Senior Term Facility	31 January 2019	4.36%	454	(3)	1	**452**	**661**
Class A1 notes	31 July 2018	4.72%	475	(3)	2	**474**	**473**
Class A2 notes	31 July 2025	6.27%	500	(1)	-	**499**	**499**
Class A3 notes	31 July 2020	4.25%	500	(3)	1	**498**	**498**
Class A4 notes	31 July 2019	3.78%	250	(2)	1	**249**	**248**
Class B notes	31 July 2019	-	-	-	-	**-**	**639**
Class B2 notes	31 July 2022	5.50%	735	(16)	2	**721**	**-**
PIK notes	6 November 2019	-	-	-	-	**-**	**173**
		4.97%	**2,914**	**(28)**	**7**	**2,893**	**3,191**

13 Borrowings *(continued)*

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

	Senior term facility £m	Class A1 £m	Class A2 £m	Class A3 £m	Class A4 £m	Class B £m	Class B2 £m	PIK notes £m	Total £m
As at 1 February 2015	663	475	500	500	250	655	-	175	**3,218**
Issue date:									
25 March 2015	(97)	-	-	-	-	-	-	-	**(97)**
13 April 2015	-	-	-	-	-	-	735	-	**735**
24 April 2015	-	-	-	-	-	-	-	(175)	**(175)**
30 April 2015	(112)	-	-	-	-	-	-	-	**(112)**
31 July 2015	-	-	-	-	-	(655)	-	-	**(655)**
Total	**454**	**475**	**500**	**500**	**250**	**-**	**735**	**-**	**2,914**

At 31 January 2016, the Senior Term Facility carried interest at a rate of LIBOR plus a margin of 2%. The variable element has been fully hedged using matching interest rate swap arrangements which fix LIBOR at 2.36% until 31 July 2018 and then at 3.00% until 31 January 2019. All other borrowings have fixed interest rates. The weighted average interest rate for all borrowings of 4.97% has been calculated using the effective interest rate and carrying values on 31 January 2016.

In order to show the Group's net borrowings, the notes and the issue costs have been offset. Issue costs are shown net of any premium on the issue of borrowings. Interest rate swaps are recognised in the consolidated statement of financial position at fair value at the period end.

All of the Class A notes and Senior Term Facility are secured by first ranking security in respect of the undertakings and assets of AA Intermediate Co Limited and its subsidiaries. The Class A facility security over the AA Intermediate Co Limited group's assets ranks ahead of the Class B2 notes. The Class B2 notes have first ranking security over the assets of the immediate parent undertaking of the AA Intermediate Co Limited group, AA Mid Co Limited. AA Mid Co Limited group can only pay a dividend when certain net debt to EBITDA and cashflow criteria are met.

The Class B2 notes have an initial period to 31 July 2018 when any voluntary repayment would incur a make-whole payment and incur all remaining interest due to 31 July 2018. After this period, there is a further two year period when any voluntary repayment would be made at a fixed premium based on the date of redemption. Any voluntary early repayments of the Class A notes would incur a make-whole payment.

Due to the early repayment of the Class B notes and the PIK notes, early repayment fees of £58m and £4m respectively were incurred in the year.

Following the repayment of £209m of the Senior Term Facility and repayment of the PIK notes and Class B notes, amortisation of the associated issue fees has been accelerated and an additional £18m (2015: £21m) has been written off in the year.

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

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

The Class A notes only permit the release of cash providing the senior leverage ratio after payment is less than 5.5x and providing there is sufficient excess cash flow to cover the payment. The Class B2 note restrictions came into effect during the 2016 financial year refinancing and only permit the release of cash providing the fixed charge cover ratio after payment is more than 2:1 and providing that the aggregate payments do not exceed 50% of the accumulated consolidated net income.

14 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 £13m increasing with inflation, over a period of up to 25 years from 29 November 2013 secured on the Group's brands. This compares with the traditional unsecured deficit reduction plan requiring the deficit to be removed over a substantially shorter period and would have resulted in significantly higher annual deficit contributions.

The valuations have been based on a full assessment of the liabilities of the schemes which have been updated where appropriate to 31 January 2016 by independent qualified actuaries.

The Group expects to pay £25m of on-going employer contributions and £13m of deficit reduction employer contributions to its defined benefit plans (AAUK and AAI) in the year ending 31 January 2017.

The amounts recognised in the balance sheet are as follows:

	As at 31 January 2016			
	AAUK £m	AAI £m	AAPMP £m	Total £m
Present value of the defined benefit obligation in respect of pension plans	(2,053)	(46)	(47)	(2,146)
Fair value of plan assets	1,815	35	-	1,850
Deficit	**(238)**	**(11)**	**(47)**	**(296)**

	As at 31 January 2015			
	AAUK £m	AAI £m	AAPMP £m	Total £m
Present value of the defined benefit obligation in respect of pension plans	(2,178)	(51)	(49)	(2,278)
Fair value of plan assets	1,809	35	-	1,844
Deficit	**(369)**	**(16)**	**(49)**	**(434)**

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

15 Related party transactions

The following table provides the total value of transactions that have been entered into with associates during each financial year:

Transactions with associates:

Associate	Nature of transaction	**2016 £m**	2015 £m
A.C.T.A. S.A.	Call handling fees paid	**2**	2
A.R.C. Europe S.A.	Registration fees paid	**1**	1

16 Events after the reporting period

On 16 March 2016 the Chancellor presented the 2016 budget in which he announced a reduction in the future corporation tax rate. Instead of the corporation tax rate reducing from 19% to 18%, on 1 April 2020, the rate will now fall to 17%. As the new rate of 17% was not substantively enacted at the balance sheet date the impact of this reduction has not been reflected in the deferred tax calculations. The effect of this rate reduction would be to reduce the carrying value of the deferred tax asset in the balance sheet by £2m.