AA INTERMEDIATE CO LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JANUARY 2017

Company registration number: 5148845

Strategic Report

Executive Chairman's Statement

Results in line with expectations

Overall, Trading Revenue[1] increased 1.6% to £937m with 2.5% growth in Roadside Assistance. Revenue from Insurance Services was flat on the prior year while Driving Services declined.

The turnaround of paid Memberships from decline to growth is a significant milestone in the transformation of the Roadside Assistance business and the Group, as Roadside represents 79% of Group Trading EBITDA[2]. Roadside Assistance Trading Revenue[1] grew 2.5% and Trading EBITDA[2] 1.4%, against the background of major transformation, the increased burden of Insurance Premium Tax (IPT) and increased breakdown incidents. This strong performance reflects not just the Group's resilient business model and demand for our services, but also the significant benefits already evident in the first two years of the transformation.

Group Trading EBITDA[2] rose by 0.5% to £406m with organic revenue growth offset by costs associated with increased breakdown incidents, higher insurance aggregator spend and the planned increase in IT maintenance costs. As a result, the Trading EBITDA[2] margin was slightly lower than last year at 43.3% (2016: 43.8%).

Exceptional operating items were £31m, comprising largely £14m of costs associated with the business restructuring. Of the £10m provided for duplicate breakdown cover, £7m is exceptional operating costs and the balance, which is related to accrued interest for refunds, is allocated to exceptional finance costs. While dealing with this issue has involved a considerable commitment of management time, it has enabled us to incorporate fairer treatment of our customers and Members into our systems and processes.

Operational cash flow was strong and cash conversion from continuing operations before tax and exceptional items was 91%. Net cash flow was £39m after dividends (2016: outflow of £168m). This was achieved despite the additional capital expenditure relating to the transformation.

Our strategy

The three-year programme to transform the AA into the UK's pre-eminent Membership services organisation began at the time of the AA plc IPO when we set out three strategic priorities and detailed the required investment. We have since delivered much against these objectives to:

- Strengthen the AA's foundations to modernise the platform to become the pre-eminent Membership services organisation in the UK;
- Revolutionise customer experience through investment in the Membership proposition and new technologies; and,
- Reduce Group borrowings and the associated interest costs.

In year one of the transformation, the 2016 financial year, we strengthened the foundations across our business.

In year two, the 2017 financial year, we built on those foundations, creating momentum for change and delivering growth:

- We have reversed years of decline in Membership and seen growth accelerate in the second half of the year. This is the result of modernised digital platforms, the new highly effective marketing approach, and the enriched Membership proposition.

- We have new channels to Membership and have expanded our offering to existing Members. The new business models in Financial Services and Insurance are performing well, with the latter driving growth in motor insurance policies within our insurance broker for the first time since 2008.

- The new IT systems and the investment in new technology for the patrols have made our operations much more efficient and we continue to take out cost.

- We are encouraged by our connected car technology trial and its potential, particularly as a tool to pre-empt breakdowns.

- Following the sale of our Irish business for £130m net of fees, we applied £106m to the repayment of debt and hold the balance for acquisitions or further debt repayment.

- We further reduced the cost of borrowing by £10m per annum through a refinancing, bringing the total reduction in the cost of borrowing since the AA plc IPO to over £75m per annum.

In the 2018 financial year, we expect to realise the transformation of the Group to deliver a stronger, more efficient and modernised platform for growth. Together with our trusted brand, leading position in the industry and excellent service levels, we expect to:

- **Achieve growth based on our leading position and the latent demand in our market -** we expect to continue to grow Membership, leverage our new channels and strengthen our business-to-business positioning;
- **Expand our technological capability -** we are revolutionising the customer's experience, driving sales, achieving higher service levels and reducing costs; in addition, we are developing our positioning to take full advantage of connected car technology; and,
- **Build on our brand beyond Roadside Assistance** - new businesses, including our Financial Services partnership, fulfil a wider set of consumer and business needs.

The Group's sustainable revenue growth is expected to lead to increased free cash flow. We will consider options for the allocation of capital which create value for stakeholders, including the repayment of debt.

The financial implications of the transformation

Capital expenditure

When we set out the plan for the transformation, we announced that the capital investment required for the IT element of the transformation was £128m over three years. This is now substantially complete with the final tranche of approximately £20m to be invested in the 2018 financial year. We expect maintenance capital expenditure in the order of £45m in the 2018 financial year and beyond.

Operating costs

Based on the success of the brand advertising during the past two years, we expect again to invest approximately £10m in brand marketing. In addition, we continue to expect to invest in product development which will significantly enhance the Membership proposition.

Incremental IT operational maintenance costs, mainly fees and licences, reached £7m per year, with an anticipated annual run rate of £8m in the 2018 financial year.

The new IT has increased our efficiency and we expect to reduce costs from the 2019 financial year, saving at least £40m per year off the 2015 cost base. Cumulative savings to date are £20m including £12m in the 2017 financial year. These came from higher productivity throughout the organisation and efficiencies in our call centres and back office. The cost to achieve these total savings is expected to be £45m over three years of which we have now invested £36m.

Outlook

We have made a positive start to the 2018 financial year.

The new IT systems and improved productivity will ultimately enable us to meet our cost savings target to cut at least £40m per annum off the 2015 cost base from the 2019 financial year.

We expect to benefit from continued investment in our digital platform, the customer relationship management systems (CRM), marketing, advertising and product development, with a particular focus on our new connected car product, Car Genie.

With the final tranche of transformation investment of approximately £20m and approximately £45m of maintenance capital expenditure expected in the 2018 financial year, a greater proportion of free cash flow will be available for the creation of stakeholder value, including the repayment of debt.

We continually review the impact of IPT and other regulatory change on our Membership base. IPT is an inequitable tax on the insurance and roadside assistance industries because it is not subject to the offsetting reliefs which most businesses can claim from VAT. We estimate that irrecoverable VAT costs the AA £25m to £30m per annum.

A strengthened and modernised AA will be capable of realising a wider range of consumer and business opportunities in our markets. We will build on our brand, technologies and leading market positions to be the UK's pre-eminent Membership services organisation.

The following definitions apply throughout the report:

[1] Trading Revenue is revenue excluding discontinued operations, business disposed of and exceptional revenue items.

[2] Trading EBITDA (earnings before interest, tax, depreciation and amortisation) excludes exceptional items and items not allocated to a segment. In the current period items not allocated to a segment principally related to the difference between the cash contribution to the pension schemes for ongoing service and the calculated annual service cost and share-based payment (see note 5).

Business performance review

Introduction

The directors present the condensed financial statements of AA Intermediate Co Limited ("the Company") and its subsidiary undertakings (together "the Group") for the year ended 31 January 2017. The Company is an Obligor and a parent company of each of the other Obligors that provide security and guarantees under the financing arrangements entered into by the AA on 2 July 2013. The Company's immediate parent is AA Mid Co Limited. There is no material difference in the financial conditions and results of operations between the AA Intermediate Co Limited group and the AA Mid Co Limited group.

Roadside Assistance

Roadside Assistance contributed 80% of Group revenue and 79% of trading EBITDA excluding Head Office costs. 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 £5m of Trading EBITDA.

Results

	2017	2016
Revenue (£m)	**742**	724
Trading EBITDA (£m)	**366**	361
Trading EBITDA margin (%)	**49.3**	49.9
Personal Members excluding free Memberships (000s)	**3,335**	3,331
Average income per personal Members excluding free Memberships (£)	**158**	156
Business customers (000s)	**9,976**	10,216
Average income per Business customer (£)	**20**	18
Number of breakdowns (000s)	**3,635**	3,459

Roadside Assistance revenue of £742m grew 2.5%, driven by the increase in average income for both paid personal Members and business customers. We have turned around the long term decline of paid personal Members, reaching an important milestone in the return to growth since May.

Average income per paid personal Member rose 1.3% to £158 (2016: 4.0% rise) driven by improved sales of ancillary products. With more parts sold by patrols, ancillary revenue rose 17% on the prior year. The 27% rise in battery sales volumes followed the adoption of the new testing equipment and payment processes, enabling higher service levels.

The combination of enhancements to our product offering, more rational pricing, our higher profile through advertising, more highly valued customer rewards and our improved online capabilities has driven both new sales and retention.

Revenue from new Members rose due to a 14% increase in new business volumes, driven particularly by our improved online capabilities. Our retention rate rose to 82% (2016: 81%). Improvements to the Membership proposition mean we are receiving fewer calls from Members requesting a review of their cover. Our Stay AA team have overcome some operational issues at the start of the year and continue to retain more of those who call and at lower discounts.

We also grew revenue in the business-to-business segment largely due to the 11% increase in revenue per customer. This is partly driven by the benefit of the rise in breakdown incidents under pay-for-use contracts and offsets a decline in business customers held with our banking partners.

Trading EBITDA increased by £5m to £366m with revenue growth partly offset by increased breakdown incidents. Savings generated by efficiencies in the patrol force and call centres limited the cost impact from higher breakdowns to £6m. Trading EBITDA margin decreased from 49.9% to 49.3%.

Insurance Services (including Financial Services)

Insurance Services, which includes Financial Services, contributed 14% of Group revenue and 16% of Group trading EBITDA excluding Head Office costs. We arranged 1.9m policies last year for motor insurance, home insurance and Home Services, providing emergency boiler and heating system repairs.

AA plc launched an in-house Insurance Underwriter in January 2016 to participate on the Group's motor insurance panel and, from August, on the Group's home insurance panel.

Our Financial Services partnership with the Bank of Ireland builds on a long history of AA financial services.

Results

	2017	2016
Revenue (£m)	**131**	131
Trading EBITDA (£m)	**76**	78
Trading EBITDA margin (%)	**58.0**	59.5
Policy numbers in force[1] (000s)	**1,879**	2,074
Average income per policy (£)	**70**	63

[1] Excluding Financial Services

Trading Revenue was flat at £131m with lower core insurance and Home Services revenue offset by growth in Financial Services. This performance does not, however, demonstrate the headway we have made in this division.

Motor insurance achieved growth in policies for the first time since 2008, benefitting in part from new sales through the AA plc in-house Underwriter, which performed ahead of expectations.

The 9% drop in total insurance policies was driven by the planned decline in travel insurance which has lower average premiums than the rest of our portfolio. As result total average income per policy rose from £63 to £70.

Financial Services revenue increased as our partnership continues to build positive momentum utilising the inherent strength of the AA brand and the marketing expertise of the AA.

Trading EBITDA declined 2.6% to £76m due to higher marketing spend on insurance aggregators and a lower contribution from Home Services as we focus on future profitability over volume. These factors, along with the ramp up of the Financial Services revenue, resulted in a lower Trading EBITDA margin of 58.0% (2016: 59.5%).

Driving Services

This division which comprises Driving Schools and DriveTech contributed 7% of Group revenue and 4% of Group trading EBITDA excluding Head Office costs.

Through the AA and BSM brands the AA is the largest driving school in the UK.

DriveTech is the market leader in providing speed awareness courses for Police forces in the UK and fleet training services.

Results

	2017	2016
Revenue (£m)	64	67
Trading EBITDA (£m)	20	19
Trading EBITDA margin (%)	31.3	28.4
Number of driving instructors	2,607	2,574

Driving Services Trading Revenue declined by £3m to £64m as the higher number of Driving School instructors partially offset a lower number of police speed awareness courses delivered by DriveTech.

The increase in Driving School revenue was in line with the 1% rise in the number of franchised instructors, reversing the recent decline. Improvements to our franchise proposition and the strength of the AA and BSM brands with learner drivers helped this performance.

In DriveTech, revenue was affected by a decline in the number of speed awareness courses delivered in the year as police forces face funding constraints.

Despite the lower revenue, Driving Services Trading EBITDA rose £1m to £20m driven by efficiency savings.

Risk Management

Our Risk Management Framework Policy requires the following:

- All areas of the business to maintain a risk register which is to be reviewed at least quarterly
- Each senior member of the Management team has his/her own set of "Top Risks" which are reviewed each month
- Risks from this "bottom up" risk identification exercise are linked to the principal risks identified by the AA plc board
- Each risk register 'owner' is required to formally self-certify the completeness and correctness of their risk register(s) on a quarterly basis.

Principal risks

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

Principal Risks	Description	Mitigation	Change in the year
1. Outstanding service We are unable to maintain an outstanding service	The AA's brand and its continued success, and in particular the loyalty of our customers, rely on delivering outstanding service that is superior to the market. Historic inadequate investment in technology, systems and processes would place this objective at increasing risk if this issue was not quickly addressed with sustained improvements to deliver the services our Members expect.	We will continue to protect the ability of our Patrols to provide excellent service through providing them with good connectivity to state of the art scheduling systems, investing in in-van technology and equipment, and providing excellent training and support. Ongoing monitoring of complaints, press reports and social media through structured processes, including Compliance and Risk oversight, helps inform our service performance and offerings.	We have updated and rolled out our operational deployment system AA Help, to our Patrols, providing improved deployment and control, as well as continuing to invest in new vans and in-van technology. Our AA breakdown app has now been downloaded by more than one million personal Members and is being actively used in 22% of breakdowns. Our connected car trials have proved our ability to predict some breakdowns and this should enable us in the future to further improve the service we offer our members.
2. Roadside market share and margin We are unable to maintain our market share and an ability to command a price premium on our roadside services	Competitors that provide roadside services at a lower price or have a different business model, together with changes in car technology, threaten our roadside market share. If we charge a price premium that is above what our service can sustain, we will not grow customers and therefore in the long-term sustainably grow profits. We need to improve, demonstrate and deliver a superior proposition and ensure our pricing is competitive relative to this position.	We are improving our roadside Membership proposition by strengthening our roadside products and engaging more members in additional benefits. We have put in place processes for significantly more effective advertising campaigns and are staring to use new CRM systems to improve our communications with Members, which includes engaging Members in their existing services and benefits to drive loyalty. We have built a pricing team with significant expertise and monitor market pricing levels.	The long term decline in paid personal members has been stabilised. The majority of our roadside Membership products now include unlimited call outs (subject to fair usage) as well as other enhancements. Our Members are now using new added value benefits developed over the last two years, which go beyond the core breakdown services and which further enhance their Membership experience, at a run rate of 1m per year. Recent increases in IPT present a cost to the business and a choice to either take a profit or market share hit. For our consumer roadside business, as the market leader, the effect of IPT rises would be equivalent to a straight tax on our margins if we did not pass the increase on.
3.Growing the business We are unable to grow the business in a manner that complements and sustains the brand	We may be unable to develop and grow new profitable business products and lines that complement the customer experience and which demonstrate standards and values that underlie our core brand.	We continue to pursue new opportunities that complement our core brand. Proposed new products and changes to existing products are put through our agreed product development process and are reviewed by the Product Outcomes Forum, (which meets 10 times a year) and includes Executive and senior attendees from the various business areas together with Compliance and Risk oversight.	The Financial Services business through our arrangement with the Bank of Ireland continues to provide a range of new products.
4. Insurance business Insurance broking business: Aggregators and price comparison sites will further damage the insurance broker model	The further growth of price comparison sites may continue to transfer value from our insurance broking business.	We are using our strengths in the brand, channels and data to mitigate this risk. Insurer hosted pricing enables the AA plc in-house underwriter to make more dynamic and frequent price changes. In time other members of our broking panel will also use this functionality which should improve our competitiveness.	AA plc insurance underwriting is widening the reach of AA Insurance. The success of the underwriter has also contributed to the first increase in motor policy numbers within our broking business since 2008.

5. Regulatory environment 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 to customer offerings, pricing and profitability. Failure to comply with regulatory obligations could result in substantial fines. Changes in Government legislation or taxation could impact the business model.	The AA has a zero appetite for systemic non-compliance with Legal and Regulatory requirements. 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. Regular dialogue is maintained with the FCA and other regulatory bodies. Our Regulatory and Legal Change Committee tracks forthcoming changes and advises the business on changes required. Products are reviewed regularly to reaffirm they are fit for purpose.	Pricing transparency at renewal is required by the FCA from 1 April 2017. The AA has prepared for this. As we implement the transformation programme, issues may be identified which relate to historic past practices that may fall short of putting customers at the heart of our business. One issue we found relates to duplicate breakdown cover. We contacted the FCA and we have agreed remediation plans for this issue with them. The extent of this matter became clear through the improved data and process understanding we are gaining through the implementation of our new Customer Relationship Management ("CRM") systems and our improved culture and conduct focus.
6. Business transformation We are unable to successfully complete the essential business transformation	We must continue to transform the AA to achieve the required efficient customer centric services and develop the business. There is still much to do and the required acceleration of improvements to process, embedded ways of working and culture, inherently involves risks in a customer facing service environment.	There is an ongoing cost efficiency and process improvement programme in place with progress tracked at regular Management Business Reviews. A rigorous approach is taken in implementing changes to achieve satisfactory control with ongoing monitoring and reporting. As we continue with our transformation initiatives they may occasionally highlight processes that are not compatible with the values of the AA. Where this is the case steps are taken to ensure the way we undertake business is fit for purpose going forward to achieve our objectives and deliver appropriate customer outcomes. We have a talent management model in place, where skill gaps are identified, development and/or recruitment interventions are actioned.	The transformation programme has enabled us to implement synergies and efficiencies in our systems, support functions and management structure. The recruitment, training and employee assessment processes have all been improved to help ensure we maximise employee performance.
7. IT transformation We are unable to successfully deliver the essential IT transformation required	An essential programme of renewal and enhancement of our IT estates is in progress to address the risks to our brand and our competitive capability. The work is extensive and involves a continuing complex programme of work. Given the scale and complexity, the programme involves inherent risks to the timely delivery of this implementation.	Proven methodology with specialist IT development skills is in place to manage this risk. The programme is being led by executives with a proven track record in IT transformation. The programme is subject to considerable scrutiny by the executive management team and regular progress reports are reviewed by both the AA plc Risk Committee and the AA plc Board.	The IT transformation programme has continued to make progress. We have substantially reorganised our IT department, outsourcing a number of functions to achieve a more effective and cost efficient service. Sales through our digital channel grew significantly and our new CRM (Customer Relationship Management) system will enable us to undertake better targeted marketing campaigns. Replacement of our main customer sales and service systems is progressing.

8. Debt 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.	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 proceeds from the sale of our Irish business enabled us to make a further reduction to our group debt of £106m. The Company also completed a further debt restructuring this year taking advantage of the low interest rate environment to reduce near term debt. This significantly reduced the amount of debt within 30 months of 31 January 2017 from £1,179m to £578m and reduced the average cost of debt from 4.97% to 4.63%. This refinancing is in line with the AA's strategy to reduce the cost of its borrowings and resulted in annualised interest savings of approximately £10 million. Whilst the Company remains highly leveraged, this further restructuring improves the ability of the Company to manage unforeseen financial shocks.
	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.	The UK pension scheme is supported by a company covenant and the assets and obligations of the scheme are kept under review.	The triennial valuation of the UK pension fund as at 31 March 2016 is still in discussion with the pension trustees and will be finalised by June 2017. Since 31 July 2016, the IAS 19 valuation of the UK Pension Scheme deficit has fallen from £547m to £325m at 31 January 2017 in line with the increase in corporate bond rates in the second half of the year.
9. Information Security/Cyber Crime / Data Breach There is an increasing threat of cyber-attacks on organisations	Critical information is not available where and when it is needed. The integrity of critical information is corrupted or the confidentiality of commercially sensitive, private or customer information is compromised by inappropriate disclosure. A serious data breach occurs.	The AA has an ongoing programme of security improvements to try and maintain a suitable level of security for the increasingly sophisticated world-wide cyber threats. Controls include information security awareness training, preventative and detective security, a specialist information security team, and information security requirements being included in third party arrangements. The AA benchmarks its security controls against the Center for Protection of National Infrastructure (CPNI) and associated Critical Security Controls (CSC).	While the AA has continued to improve information security controls during the 2017 financial year we still consider this risk to be increasing due to the ongoing number of high profile cyber-attacks on organisations. The move to the new CRM system will reduce the risk of data breach when fully implemented. As previously reported we consider this to be an emerging/evolving risk and will continue to take additional steps to improve our controls taking guidance from external specialists.

Further information on the financial risks and management objectives and policies, including market, credit and liquidity risks, is included in note 27 of the financial statements.

Management discussion and analysis

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

Management discussion and analysis – Consolidated income statement for the year ended 31 January 2017

Revenue: Group revenue, excluding Ireland operations (see note 3), decreased by £2m or 0.2% from £932m in the year ended 31 January 2016 to £930m in the year ended 31 January 2017. The decrease in revenue was primarily driven by a reduction in the driving services segment, the exceptional revenue provision for duplicate roadside assistance cover (see note 21) and the disposal of the windscreen replacement subsidiary in the prior year. Trading revenue increased by £15m from £922m in the year ended 31 January 2016 to £937m in the year to 31 January 2017 (see note 2 for reconciliation from group revenue to trading revenue).

> *Roadside Assistance*: Roadside Assistance revenue increased by £18m or 2.5% from £724m in the year ended 31 January 2016 to £742m in the year ended 31 January 2017. The increase in revenue was primarily driven by increased average income per personal Member and higher business-to-business revenue.
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> *Insurance Services*: Insurance Services revenue was flat at £131m for both years ended 31 January 2016 and 31 January 2017. This was due to the growth in Financial Services, offset by lower revenue in Home Services and motor insurance.
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> *Driving Services*: Driving Services revenue decreased by £3m or 4.5%, from £67m in the year ended 31 January 2016 to £64m in the year ended 31 January 2017. The decrease in revenue was primarily driven by decline in speed awareness courses.
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> *Exceptional Revenue Provision*: We identified a group of business-to-business customers who have some duplication of Roadside Assistance cover, being personal Members and holders of AVAs (Added Value Accounts) with our banking partners. We have provided a total of £10m for our estimate of the refunds due of which £7m is expected to relate to premiums paid for breakdown cover and has bene shown as exceptional revenue and £3m for interest payable on those premiums.
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> *Ireland*: We disposed of our Ireland operation in July 2016, the revenue from discontinued operation is £23m for the year ended 31 January 2017.

Cost of sales: Cost of sales increased by £5m or 1% from £334m in the year ended 31 January 2016 to £339m in the year ended 31 January 2017 mainly due to a 5% increase in breakdowns and related operational costs.

Administrative and marketing expenses: Administrative and marketing expenses increased by £6m or 2.0% from £298m in the year ended 31 January 2016 to £304m in the year ended 31 January 2017. The increase in administrative and marketing expenses was primarily driven by an increase in amortisation of software development expenditure.

Share of profits of joint venture and associates: Share of profits of joint venture and associates remained at £1m in both the years ended 31 January 2017 and 31 January 2016.

Operating profit: Operating profit decreased by £13m or 4.3% from £301m in the year ended 31 January 2016 to £288m in the year ended 31 January 2017. The decrease in operating profit was primarily driven by the increase in administrative and marketing expenses described above.

Finance costs: Finance costs decreased by £95m or 33.9% from £280m in the year ended 31 January 2016 to £185m in the year ended 31 January 2017. The decrease in finance costs was driven by the lower debt repayment premium and penalties and lower interest on external borrowings following the refinancing in the prior year.

Finance income: Finance income remained flat at £1m in both the years ended 31 January 2017 and 31 January 2016.

Taxation: Taxation increased by £15m from £12m in the year ended 31 January 2016 to £27m in the year ended 31 January 2017. The increase in tax expense was largely as a result of profits increasing by £82m which accounts for £18m of tax at the effective rate of tax of 22.1%.

Trading EBITDA

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

Trading EBITDA increased by £2m or 0.5% from £404m in the year ended 31 January 2016 to £406m in the year ended 31 January 2017. The increase in Trading EBITDA was primarily driven by the Roadside Assistance as outlined below.

> *Roadside Assistance*: Roadside Assistance Trading EBITDA increased by £5m or 1.4% from £361m in the year ended 31 January 2016 to £366m in the year ended 31 January 2017. Trading EBITDA margins reduced slightly from 49.9% in the year ended 31 January 2016 to 49.3% in the year ended 31 January 2017. The increase in Trading EBITDA and relatively flat Trading EBITDA margin was driven by the growth in revenue partly offset by costs of increased breakdown incidents.
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> *Insurance Services*: Insurance Services Trading EBITDA decreased by £2m or 2.6% from £78m in the year ended 31 January 2016 to £76m in the year ended 31 January 2017. Trading EBITDA margins reduced from 59.5% in the year ended 31 January 2016 to 58.0% in the year ended 31 January 2017. The decrease in Trading EBITDA reflected the higher marketing spend on insurance aggregators and a lower contribution from Home Services.
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> *Driving Services*: Driving Services Trading EBITDA increased by £1m or 5.3% from £19m in the year ended 31 January 2016 to £20m in the year ended 31 January 2017. Trading EBITDA margins increased from 28.4% in the year ended 31 January 2016 to 31.3% in the year ended 31 January 2017. The increase in Trading EBITDA and the Trading EBITDA margin was driven by efficiency savings.
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> *Head Office Costs*: Head Office Costs increased by £2m or 3.7% from £54m in the year ended 31 January 2016 to £56m in the year ended 31 January 2017. The increase in head office costs is primarily driven by increased IT maintenance costs offset by efficiency savings.

Management discussion and analysis – Consolidated statement of cash flows

Net cash flow from operating activities before tax: £376m in the year ended 31 January 2016 compared to £369m in the year ended 31 January 2017. This was due to an increase in profit before tax offset by negative working capital movements and the adjustment for the profit on sale of the Ireland business.

Tax paid: Cash outflow from tax paid was £6m in the year ended 31 January 2016 compared to £23m in the year ended 31 January 2017. The increase in cash outflow from tax paid is due to higher profits in the current year.

Investing activities: Cash flow from investing activities was an outflow of £61m in the year ended 31 January 2016 compared to an inflow of £48m in the year ended 31 January 2017. The current year inflow primarily related to the proceeds from the disposal of our Ireland operations.

Financing transactions: Cash outflow from financing transactions was £203m in the year ended 31 January 2016 compared to £102m in the year ended 31 January 2017. The decrease in cash outflows on financing transactions related to lower repayment of debt premium and penalties and a lower repayment of borrowings in the current year.

Interest paid on borrowings: Cash outflow from the interest paid on borrowings was £172m in the year ended 31 January 2016 compared to £143m in the year ended 31 January 2017. The decrease in interest paid on borrowings is due to the refinancing in the prior year.

Payment of finance lease capital and interest: Cash outflow from the payment of finance lease capital and interest was £42m in the year ended 31 January 2016 compared to £50m in the year ended 31 January 2017. The increase in cash outflows from payment of finance lease capital and interest was primarily driven by the timing of driving school finance lease disposals and the timing of the associated end of lease termination payments.

Dividends paid: Cash outflow from dividends paid remained flat at £60m in both years ended 31 January 2016 and 31 January 2017.

By order of the Board

M Clarke
Director

7 June 2017

Directors’ report

The Directors present their report and audited consolidated financial statements of AA Intermediate Co Limited (“the Company”) and its subsidiary undertakings for the year ended 31 January 2017.

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

Bob Mackenzie	Executive Chairman	
Martin Clarke	Chief Financial Officer	
Mark Millar	Director	
Gillian Pritchard	Director	Appointed 30 April 2016
Rob Scott	Director	Resigned 30 April 2016
Mark Millar	Company Secretary	

AA Intermediate Co Limited is a Private Limited Company registered and domiciled in England and Wales, registered address Fanum House, Basing View, Basingstoke, Hampshire, RG21 4EA.

Directors’ indemnities

The Company maintains directors’ and officers’ liability insurance, which gives appropriate cover for any legal action brought against its directors and officers. The Company has also granted indemnities to each of its directors and the Company Secretary to the extent permitted by Law. Qualifying third party indemnity provisions (as defined by section 234 of the Act) were in force during the year ended 31 January 2017 and remain in force, in relation to certain losses and liabilities which the directors or Company Secretary may incur to third parties in the course of acting as directors or Company Secretary or employees of the Company or any associated company.

Charitable work

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

Driving for Care Leavers

The AA Trust helps teenagers leaving care to learn to drive. Following last year’s pilot, twelve pupils from Bristol, Medway, Newcastle, and Westminster are taking part in the second programme. To date three have passed their tests and others are almost ready to take theirs.

The driving lessons give the care leavers a form of independence that many in such circumstances would struggle to achieve. One of the pupils who has passed his test has an apprenticeship with a car manufacturer and being able to drive will help him immensely to make the most of this opportunity. We are now looking at ways of providing assistance in preparing for the theory test. The scheme is supported by the Children’s Commissioner, Anne Longfield OBE and monitored by Bristol University. As well as delivering national support to those that need our help, we also make sure we support local communities and initiatives. Some highlights from this year include:

Patrol visits AA’s biggest fan

Allen Childs made a ‘home start’ visit to the AA’s biggest fan, eight-year-old Alfie, in October. The visit was arranged when Alfie’s mother made contact to say that her son, who has autism, was desperate to help an AA patrol on a job.

Directors’ report *(continued)*

Bangers for Ben

The AA provided breakdown support and European Breakdown Cover for the participants in the annual charity rally. Ben is the automotive industry’s charity which partners with the industry to provide support for life to its people and their families. AA patrols ensured that the bangers cleared the Alps and reached the finish line intact with the additional benefit that two of our team took part in the event which raised £65,000 for the charity.

Children’s magical taxi tour

The AA supported the London cabbies ‘Children’s Magical Taxi Tour’ trip from London to Disneyland Paris in September. They were part of a three-mile long convoy of London taxi cabs, ambulance staff and French police escorts all helping to give terminally ill children a magical weekend. The children were able to explore the AA recovery truck before setting off for their weekend at Disneyland.

Newcastle college

Members of our motoring and home insurance team at Newcastle, with the important addition of Patrol Man Pete, took 22 disabled young adults from Newcastle College on a Treasure Trail in South Shields. AA volunteers then visited the college the following day and gave AA goody bags to its special needs department. We have encouraged the relationship to continue through the regular sale of fresh fruit and vegetables by the students to our Newcastle staff.

Health and Safety

We continue to maintain our record of zero fatalities and the number of major injuries we report to the Health and Safety Executive (HSE) remains lower than the national rate for industries operating in a similar environment.

Following a change in reporting procedures to encourage a focus on safety with our patrols, we have seen an increase both in near misses being reported but also accident numbers. We have taken this seriously, carrying out investigations to establish the root cause of this increase so we can take targeted action. We have developed a detailed safety plan to ensure delivery of the actions and to enable us to measure our success.

At the heart of the plan is the commitment to develop a safety culture in which empowerment and accountability are central at all levels and our people are able to take any actions to improve them.

Great progress has been made during the year and, as a result, we have seen our performance improve and accident numbers decrease in the latter part of the year. The key achievements that have driven this improvement are:

Safety campaign: We launched the “Take Care” campaign which embeds one of the Group’s core values, that of Care, into everything we do. Initial roll out has been to the AA’s Roadside Assistance operation and we plan to roll out best practice across the rest of the business next year. This campaign has been fully supported by the Independent Democratic Union, the only recognised union within the AA.

Communications: Improvements in safety communications were delivered, ensuring that how we engage with our workforce is effective and drives change.

Training: We have changed the way in which we engage with patrols in regard to their safety through training. We have redeveloped induction training to ensure that we embed the core values and safety culture, driving empowerment and ownership from day one.

Engagement: Following the recent investment in technology, we are now engaging with our patrols on health and safety issues in more modern ways. We recently achieved a 75% engagement level in an online survey regarding tools and equipment.

Directors' report *(continued)*

Our People

Our people are at the heart of what we do – they deliver the high quality, trusted service to our Members and are essential to our brand reputation. Our focus this year has been to support the business-wide transformation programmes and provide the support, development and change management required to enable our teams to work to the best of their abilities, achieve job satisfaction and deliver business plans and objectives.

Attracting talent and developing our employer brand

Making sure we attract the right talent, and really show people what a great organisation the AA is to work for, has been an important activity this year. A shift in focus to direct recruitment sourcing, rather than using intermediaries, has led to an increase in volume to our candidate pool of over 300%. Our resourcing team delivered over 2,000 candidate offers during the year. Some of the key highlights we have delivered this year:

We have rebuilt our recruitment website, in line with the refreshed AA brand and values. Our new website brings our staff to the fore, highlighting the role they play, the brilliant job they do, and the diversity of career opportunities we offer.

The AA's apprenticeship scheme is now live in our Oldbury contact centre. We have partnered with an external learning company, Learn Direct, to support our new two-year scheme. Current numbers on this programme are 30, with more planned in Oldbury and across other sites throughout 2017.

The AA has been designated a Disability Confident employer, having signed up to the seven commitments which actively encourage and enable people with disabilities to work for the AA.

The AA was one of the first organisations to receive a Gold Award from the Armed Forces Covenant Employer Recognition Scheme (ERS). It recognises businesses that are supporters of the Armed Forces Covenant, a promise that those who serve or have served in the Armed Forces, or their families, are treated fairly.

We recommitted our support to the armed forces community at a series of events at AA offices during Armed Forces Week where AA reservists and ex-forces personnel worked with the Ministry of Defence to explain the work of reservists.

Investing in our people

This year has been a year of change for many of our teams, therefore, it has been important to provide support, development opportunities and some formal learning. Some of the highlights have been:

Learning and development

The new team have introduced an interactive induction guide, which allows new recruits to view videos and source useful information before they start with us. Providing this information to people early on in their AA journey is a key part of cementing our relationship with them.

Developing our people

We have worked with the operational management teams to establish what makes a great front-line employee in our contact centres – analysing how we should develop people to maximise their performance through competence and align those competencies to our values. This has been built into our attraction, recruitment, training and assessment programmes.

Learning management system

In the later part of 2016, we developed a comprehensive learning management system, which will be launched during 2017. This online solution will offer a range of training and learning interventions, and enable us to record and report on training completion and competence.

Directors' report *(continued)*

Performance management

During 2016 we identified behaviours, aligned to our values, with the view to embed these into our performance management processes and framework. Ahead of launching the new performance management process for the 2018 financial year, we are rolling out the new behaviour descriptions to allow our teams to become familiar with them and consider what they really mean for them.

Recognising outstanding contributions

The AA employee award ceremony was held in September, attended by 400 employees and their guests. A total of 21 awards were made, ranging from Patrol of the Year to our most outstanding call centre advisers.

Ownership in the AA

We feel it is really important that our teams directly benefit from the hard work and dedication they give to the organisation and our brand, so we offer an annual Employee Share Incentive Plan (ESIP), in which they receive a free matching share for every share purchased. We were pleased to see in the 2017 financial year that 36% of our people have participated.

Our people profile

It is critical to the future success of our business that we have the right people, with the right skills in the right roles to enable us to deliver the service our members expect and deserve.

Synergies and efficiencies in management structures, systems and support functions have enabled stream-lined organisation structures and a reduction in headcount, as the transformation programme continues.

We recognise the benefits of diversity throughout the AA and always look to ensure that we have an appropriate balance of skills and experience at Board level and throughout.

We strive to engage all our stakeholders with fairness, dignity and respect and endorse the UN Declaration of Human Rights – we do not tolerate child labour or forced labour, and respect freedom of association and the rights of employees to be represented by trade unions or works councils.

The AA is a fair employer and does not discriminate on the basis of gender, religion, age, disability or ethnicity. This policy applies throughout the AA and is communicated to all employees during their induction training and throughout their employment with us. It is our policy that people with disabilities should have full and fair consideration for all vacancies. Where employees become disabled during our employment, we endeavour to retain and adjust their environment where possible to allow them to maximise their potential.

Engaging with our people

It is important to us that we have a culture of openness with our teams and that we engage with them, particularly during this time of transformation. We have regular dialogue with our people through various channels, including staff and management-level focus groups and listening sessions. Communication internally is through our internal intranet and emails, one to one /team meetings, and conferences.

Directors' report *(continued)*

Whistleblowing Policy

We are committed to conducting our business with honesty and integrity. The AA's whistleblowing policy encourages employees to raise concerns internally that can be investigated in a timely and effective manner. We regularly brief our employees on our whistleblowing policy and communication channels open to them. During the year, six cases were escalated for review by HR and the ERCC. Common themes include staff behaviour, management discrimination and performance management.

We formally engage and consult with the AA's recognised union, the IDU, and have an elected Management Forum which provides a platform for management-level employees' view to be heard, as well as meeting our legal obligation for Information and Consultation.

Disclosure of information to the auditors

Each director has made enquiries of their fellow directors and the Group's auditor and taken all the steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Relevant audit information is that information needed by the auditor in connection with preparing the report. So far as each director approving this report is aware, and based on the above steps, there is no relevant audit information of which the auditor is unaware.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and the Company financial statements in accordance with Financial Reporting Standard (FRS) 101. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and Group and the profit or loss of the Company and Group for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRS has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company, or the Group, will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Directors' report *(continued)*

Going concern

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

The Group has long-term contracts with a number of suppliers across different industries and its activities are highly cash generative. The Group's borrowings are long-term in nature and the Group had £136 million of cash and cash equivalents of which £128 million is freely available to use within the business. The Directors believe that the Group is well placed to manage its business risks successfully.

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

Dividend

The Group has paid a dividend of £60m (2016: £60m) during the year.

Post balance sheet events

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

By order of the Board

M Clarke
Director

7 June 2017
Fanum House
Basing View
Basingstoke
Hampshire
RG21 4EA

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

We have audited the financial statements of AA Intermediate Co Limited for the year ended 31 January 2017 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statements of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes 1 to 36 in the Group financial statements, the Parent Company Balance Sheet, the Parent Company Statement of Changes in Equity and notes 1 to 8 in the Company financial statements. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 18 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 January 2017 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- based on the work undertaken in the course of the audit:
    - the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
    - the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements;

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Kathryn Barrow (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP
London
7 June 2017

Consolidated income statement

	Note	for the year ended 31 January 2017 £m	2016 £m
Continuing operations			
Trading revenue	2	**937**	922
Revenue from business disposed of	2	**-**	10
Exceptional revenue provision	2	**(7)**	-
Group Revenue		**930**	932
Cost of sales		**(339)**	(334)
Gross profit		**591**	598
Administrative & marketing expenses		**(304)**	(298)
Share of profits of joint venture and associates, net of tax		**1**	1
Operating profit		**288**	301
Trading EBITDA	2	**406**	404
Items not allocated to a segment	5	**(20)**	(18)
Amortisation and depreciation	11, 12	**(66)**	(51)
Impairment of investment in joint venture	13	**(1)**	-
Exceptional operating items	4	**(31)**	(34)
Operating profit	4	**288**	301
Finance costs	6	**(185)**	(280)
Finance income	7	**1**	1
Profit before tax		**104**	22
Tax expense	10	**(27)**	(12)
Profit for the year from continuing operations		**77**	10
Discontinued operations			
Profit before tax for the year from discontinued operations	3	**80**	7
Profit for the year		**157**	17

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

Consolidated statement of comprehensive income

	Note	for the year ended 31 January 2017 £m	 2016 £m
Profit for the year (including discontinued operations)		**157**	17
Other comprehensive income on items that may be reclassified to profit and loss in subsequent years			
Exchange differences on translation of foreign operations		**2**	1
Effective portion of changes in fair value of cash flow hedges		**13**	10
Tax effect	10	**(1)**	(2)
		14	9
Other comprehensive income on items that will not be reclassified to profit and loss in subsequent years			
Remeasurement (losses) / gains on defined benefit schemes	24	**(99)**	149
Tax effect credit / (expense)	10	**17**	(26)
		(82)	123
Total other comprehensive income		**(68)**	132
Total comprehensive income for the year		**89**	149

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

Consolidated statement of financial position

	Note	as at 31 January **2017** **£m**	 2016 £m
Non-current assets			
Goodwill and other intangible assets	11	**1,276**	1,290
Property, plant and equipment	12	**131**	122
Investments in joint ventures and associates	13	**6**	6
Deferred tax assets	10	**62**	52
		1,475	1,470
Current assets			
Inventories	14	**6**	5
Trade and other receivables	15	**164**	170
Amounts owed by parent undertakings	17	**1,214**	1,214
Cash and cash equivalents	16	**136**	94
		1,520	1,483
Total assets		**2,995**	2,953
Current liabilities			
Trade and other payables	18	**(502)**	(517)
Current tax payable		**(11)**	(7)
Provisions	21	**(19)**	(8)
		(532)	(532)
Non-current liabilities			
Borrowings and loans	19	**(2,819)**	(2,920)
Finance lease obligations	28	**(20)**	(21)
Defined benefit pension scheme liabilities	24	**(395)**	(296)
Provisions	21	**(11)**	(7)
		(3,245)	(3,244)
Total liabilities		**(3,777)**	(3,776)
Net liabilities		**(782)**	(823)
Equity			
Share capital	22	**-**	20
Currency translation reserve	23	**1**	(1)
Cashflow hedge reserve	23	**2**	(10)
Retained earnings	23	**(785)**	(832)
Total equity attributable to equity holders of the parent		**(782)**	(823)

Signed for and on behalf of the Board on 7 June 2017 by

M Clarke

Director

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				
	Note	Share capital £m	Currency translation reserve £m	Cashflow hedge reserve £m	Retained earnings £m	Total £m
At 1 February 2015		**20**	**(2)**	**(18)**	**(917)**	**(917)**
Profit for the year		-	-	-	17	17
Other comprehensive income		-	1	8	123	132
Total comprehensive income		-	1	8	140	149
Dividends		-	-	-	(60)	(60)
Share-based payments		-	-	-	5	5
At 31 January 2016		**20**	**(1)**	**(10)**	**(832)**	**(823)**
Profit for the year		-	-	-	157	157
Other comprehensive income		-	2	12	(82)	(68)
Total comprehensive income		-	2	12	75	89
Dividends		-	-	-	(60)	(60)
Share-based payments	33	-	-	-	12	12
Capital reduction		(20)	-	-	20	-
At 31 January 2017		**-**	**1**	**2**	**(785)**	**(782)**

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 2017 £m	2016 £m
Profit before tax from continuing and discontinued operations	2, 3	**188**	30
Amortisation and depreciation	11, 12	**67**	54
Net finance costs	6, 7	**184**	279
Other adjustments to profit before tax		**(62)**	10
Working capital:			
(Increase)/decrease in trade and other receivables		**(16)**	5
Increase in trade and other payables		**6**	5
Increase/(decrease) in provisions		**12**	(6)
Difference between pension charge and cash contributions		**(10)**	(1)
Total working capital adjustments		**(8)**	3
Net cash flows from operating activities before tax		**369**	376
Tax paid		**(23)**	(6)
Net cash flows from operating activities		**346**	370
Investing activities			
Capital expenditure		**(70)**	(74)
Proceeds from sale of fixed assets		**18**	11
Acquisitions and disposals, net of cash acquired or disposed of	3	**99**	1
Interest received		**1**	1
Net cash flows used in investing activities		**48**	(61)
Financing activities			
Proceeds from borrowings		**700**	735
Issue costs on borrowings		**(6)**	(16)
Debt repayment premium and penalties		**(30)**	(58)
Repayment of borrowings		**(766)**	(864)
Refinancing transactions		**(102)**	(203)
Interest paid on borrowings		**(143)**	(172)
Payment of finance lease capital		**(43)**	(34)
Payment of finance lease interest		**(7)**	(8)
Dividends paid		**(60)**	(60)
Net cash flows from financing activities		**(355)**	(477)
Net increase in cash and cash equivalents		**39**	(168)
Net foreign exchange differences		**3**	-
Cash and cash equivalents at 1 February	16	**94**	262
Cash and cash equivalents at 31 January	16	**136**	94

Consolidated statement of cash flows (continued)

The cash flows from operating activities are stated net of cash outflows relating to exceptional items of £15m (2016: £36m). This relates to the cost of business transformation of £11m (2016: £21m), non-recurring costs of IT system implementation and cost restructuring activities of £7m (2016: £7m), re-financing of the Group's borrowings £nil (2016: £4m), and a net cash inflow from onerous property lease provisions in respect of vacant properties of £3m (2016: £4m outflow).

Other adjustments to profit before tax of £62m (2016: inflow of £10m) include profit on sale of Ireland £77m (2016: £nil), share of profit from joint ventures and associates of £1m (2016: profit of £1m), share based payments of £12m (2016: £5m), loss on sale of fixed assets of £3m (2016: £3m), impairment of investment in joint ventures of £1m (2016: £nil) and loss on disposal of subsidiary of £nil (2016: £3m).

Operating cash flows from discontinued operations were £10m (2016: £14m) (see note 3).

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

Notes to the consolidated financial statements

1 Basis of preparation and accounting policies

1.1 General information

The consolidated financial statements for the year ended 31 January 2017 comprise the financial statements of AA Intermediate Co Limited ('the Company') and its subsidiaries (together referred to as 'the Group'). AA Intermediate Co Limited is a limited company incorporated and domiciled in England and Wales.

These statements and the prior year comparatives have been presented to the nearest £million.

1.2 Basis of preparation

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

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

a) Going concern

The Group is highly cash generative with a large proportion of its revenues coming from recurring transactions. The significant customer loyalty demonstrated by high renewal rates and lengthy customer tenure underpins this and in addition to the cash balances at the reporting date the Group has agreed undrawn credit facilities. The majority of the Group's borrowings are long term in nature with no borrowings due within 12 months from the date of signing of these financial statements. For the Group's longer term viability, it remains a key assumption of the Directors that the Group continues to have ready access to both public debt and equity markets to enable these borrowings to be easily refinanced in due course. The Directors have reviewed projected cash flows for a period of one year from the date of signing these financial statements and have concluded that the Group has sufficient funds to continue trading for this period and the foreseeable future. Therefore, the financial statements have been prepared using the going concern basis.

b) Basis of consolidation

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

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

1.3 Accounting policies

The principal accounting policies are set out below.

a) Interests in joint ventures and associates

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

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

1.3 Accounting policies *(continued)*

b) Foreign currencies

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

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

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

c) Business combinations and goodwill

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

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

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

Any contingent consideration payable is recognised at fair value at the acquisition date, and subsequent changes to the fair value of the contingent consideration are recognised in profit or loss. Any consideration paid to a former owner who continues to work for the business as part of the acquisition that is contingent on future service is excluded from goodwill and treated as acquisition earn-out costs within items not allocated to a segment in administrative and marketing expenses.

d) Intangible assets

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

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

e) Software and development costs

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

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

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

1.3 Accounting policies *(continued)*

f) Property, plant and equipment

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

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

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

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

g) Inventories

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

h) Financial instruments

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

Trade receivables and trade payables

Trade receivables (excluding instalment debtors) and trade payables are not interest bearing and are recognised initially at fair value. Instalment debtors accrue interest on the month end balance. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Cash and cash equivalents

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

Debt instruments

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

Equity instruments (share capital issued by the Group)

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

Derivative financial instruments

The Group's capital structure exposes it to the financial risk of changes in interest rates and fuel prices. The Group uses interest rate and fuel swap contracts to hedge these exposures.

1.3 Accounting policies *(continued)*

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

Cashflow hedges

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

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

i) Impairment of assets

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

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

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

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

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

j) Leases

Finance leases transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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

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

1.3 Accounting policies *(continued)*

k) Provisions

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

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

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

l) Retirement benefit obligation

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

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

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

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

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

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

m) Revenue recognition

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

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

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

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

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

1.3 Accounting policies *(continued)*

n) Insurance contracts

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

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

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

o) Exceptional items

Exceptional operating items are events or transactions that fall within the operating activities of the Group and which by virtue of their size or incidence have been disclosed in order to improve a reader's understanding of the financial statements.

In addition, occasionally there are events or transactions that fall below operating profit that are one-off in nature and items within operating profit that relate to transactions that do not form part of the ongoing segment performance and which by virtue of their size or incidence have been separately disclosed in the financial statements.

p) Finance income and costs

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

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

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

q) Taxation

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

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

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

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

1.3 Accounting policies *(continued)*

r) Segmental analysis

The Group reports its operations using the segments that are reported for management purposes. Segments are based on business operations because this is where Group risk and return is focussed.

s) Share-based payments

The Group operates a number of equity settled, share-based payment compensation plans for employees. The fair value of the equity settled awards is measured at the grant date based on expectations of performance conditions being met. The fair value of the awards is recognised as an expense with a corresponding credit to reserves.

t) Discontinued operations and disposals

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to re-sale

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is represented as if the operation had been discontinued from the start of the comparative year.

u) Critical accounting estimates and judgements

Estimates are evaluated continually and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions about the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Management have exercised judgement in applying the Group's accounting policies and in making critical estimates. The underlying assumptions on which these judgements are based, are reviewed on an ongoing basis and include the selection of assumptions in relation to the retirement benefit obligation and assumptions for future growth of cash flows to support the value-in-use calculations for the goodwill impairment review.

The principal estimates and assumptions that have a risk of causing an adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

Retirement benefit obligation

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

Derivative financial Instruments

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

Goodwill

The Group tests goodwill for impairment annually. The recoverable amounts of cash generating units have been determined based on value-in-use calculations which require the use of estimates. Management have prepared discounted cash flows based on the latest strategic plan.

1.3 Accounting policies *(continued)*

Share-based payments

The Group has issued a number of share-based payment awards to employees during the year which are measured at fair value. This involves estimates about the expected volatility of the share price and the number of leavers over the vesting period.

Provision for duplicate breakdown cover

The Group has made a provision in revenue and finance costs for potential refunds due to customers who may have duplicate cover as a business-to-business customer and as a personal Member. This provision has required the use of estimates in determining the likelihood of a refund occurring and is dependent on individual customer circumstances. These estimates may be different to the actual outcome and include the split of the exceptional charge between revenue and finance costs.

2 Segmental information

	2017 £m	2016 £m
Revenue		
Roadside Assistance	**742**	724
Insurance Services	**131**	131
Driving Services	**64**	67
Trading Revenue	**937**	922
Revenue from business disposed of	**-**	10
Exceptional revenue provision (see note 21)	**(7)**	-
Group Revenue	**930**	932
Trading EBITDA		
Roadside Assistance	**366**	361
Insurance Services	**76**	78
Driving Services	**20**	19
Head Office costs	**(56)**	(54)
Trading EBITDA	**406**	404
Items not allocated to a segment	**(20)**	(18)
Amortisation and depreciation	**(66)**	(51)
Impairment of investment of joint venture	**(1)**	-
Exceptional items	**(31)**	(34)
Operating profit	**288**	301
Net finance costs	**(184)**	(279)
Profit before tax from continuing operations	**104**	22

All 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 previous financial year. The results of this business have been presented above as business disposed of.

The segmental results for the prior period have been restated to exclude Ireland which is now a discontinued operation (see note 3).

2 Segmental information *(continued)*

For management purposes, the Group is organised into business units based on their products and services. The Group has five reportable operating segments as follows:

- *Roadside Assistance:* This segment is the largest part of the AA business. The AA provides a nationwide service, sending patrols out to Members stranded at the side of the road, repairing their vehicles where possible and getting them back on their way quickly and safely.
- *Insurance Services:* This segment includes the insurance brokerage activities of the AA, primarily in arranging motor and home insurance for customers, its home emergency activities and its intermediary financial services business.
- *Driving Services:* This segment contains the AA Driving School and the British School of Motoring, which are the two largest driving schools in the UK, as well as AA DriveTech, which provides driver training and educative programmes.
- *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 Revenue and Trading EBITDA.

Trading Revenue is revenue on a continuing basis adjusted for exceptional items and business disposed of. Trading EBITDA is profit after tax on a continuing basis as reported, adjusted for depreciation, amortisation, exceptional operating items, items not allocated to a segment, net finance costs, tax expense and business disposed of. This better reflects the Group's underlying performance.

Items not allocated to a segment relate to transactions that do not form part of the ongoing segment performance and include transactions which are one–off in nature. See note 5 for further details.

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 statement of financial position as management do not view this information on a segmental basis.

3 Discontinued operations

On 11 August the Group completed the sale of its Irish business. The entities sold were AA Ireland Limited and its subsidiary undertakings. The Ireland business segment has therefore been reported as a discontinued operation as it represented a separate geographical area and the whole of the Irish operation was disposed of in the year.

As part of the transaction, the AA Ireland pension scheme, which is closed to future accrual, was transferred to AA Corporation Limited, a UK subsidiary of the Group and will continue to be the responsibility of the Group.

3 Discontinued operations (continued)

a) Results of discontinued operations

	2017 £m	2016 £m
Revenue	**23**	38
Expenses	**(15)**	(25)
Trading EBITDA	**8**	13
Depreciation and amortisation	**(1)**	(3)
Exceptional items	**-**	(2)
Operating profit	**7**	8
Profit on disposal of discontinued operations	**77**	-
Profit before tax	**84**	8
Tax	**(4)**	(1)
Profit for the year from discontinued operations	**80**	7

Tax includes a charge of £1m (2016: £1m) in relation to the trading results of the discontinued operation and a charge of £3m (2016: £nil) in relation to tax due on the licencing of the brand to the Irish business segment. The tax due on the use of the brand has arisen over a number of years but has become material in the current financial year and related wholly to the discontinued operations. As this liability rests with the UK group, any changes from the amounts provided will be reflected in the UK entity accounts going forward.

No additional tax arises on the profit on disposal of the Irish business segment mainly due to the application of the substantial shareholding exemption.

The profit from the sale of the Ireland business segment consisted of the following:

	£m
Proceeds	133
Fees	(3)
Net assets	(53)
Profit on disposal of discontinued operations	**77**

Proceeds, net of fees were £130m and allowed £106m of the Senior Term Facility to be repaid on 31 August 2016. Under the terms of our borrowings, we have held back £24m from the net proceeds in ring-fenced available cash to be used for potential future acquisitions. Any amounts not committed to an acquisition within 12 months from the AA Ireland completion date must be used to repay either Class A notes or the Senior Term Facility.

3 Discontinued operations (continued)

b) Net cash flows of discontinued operations

	2017 £m	2016 £m
Operating cash flow	**10**	14
Investing cash flow	**(3)**	(4)
Total cash flows	**7**	10

During the year, the following cash flows arose as a result of Group acquisitions and disposals:

	£m
Cash proceeds from sale of Irish business segment	133
Fees	(3)
Net cash proceeds from sale of Irish business segment	130
Cash held in Irish business at point of disposal	(31)
Acquisitions and disposals, net of cash acquired or disposed of	**99**

c) Net assets of discontinued operations at point of disposal

	£m
Goodwill	**26**
Other intangible assets	**9**
Property, plant and equipment	**3**
Trade and other receivables	**25**
Cash and cash equivalents	**31**
Trade and other payables	**(39)**
Provisions - restructuring	**(1)**
Cumulative foreign exchange adjustment in reserves	**(1)**
Total	**53**

4 Operating profit

Operating profit is stated after charging:

	2017 £m	2016 £m
Amortisation of owned intangible assets	**33**	23
Depreciation of owned tangible fixed assets	**12**	11
Depreciation of leased tangible fixed assets	**22**	20
Operating lease rentals payable – land and buildings	**4**	5
Exceptional items	**31**	34

Exceptional revenue included £7m for duplicate breakdown cover (2016: £nil). In addition, £3m was charged to exceptional finance charges bringing the total exceptional amount for duplicate breakdown cover to £10m. See note 21 for further information.

Exceptional operating costs include £14m relating to business transformation costs (2016: £22m), £3m loss on disposal of fixed assets (2016: £3m), £3m for IT systems transformation (2016: £2m), £1m costs from onerous properties (2016: £2m income), £nil for the loss on disposal of Autowindshields (UK) Limited (2016: £5m), £nil relating to finance transactions (2016: £3m), £3m mainly relating to non-recurring costs for cost restructuring activities (2016: £2m) and nil (2016: £1m gain) on disposal of subsidiary.

Costs from the current year refinancing in December 2016 were directly attributable to the issue and repayment of loan notes and have therefore been included either in finance costs or in borrowings in debt issue fees (see notes 6 and 20).

5 Items not allocated to a segment

	2017 £m	2016 £m
Share-based payments (see note 33)	**12**	5
Difference between cash contributions to the pension scheme for ongoing service and the calculated annual service costs	**8**	13
Total items not allocated to a segment	**20**	18

6 Finance costs

	2017 £m	2016 £m
Interest on external borrowings	**(147)**	(175)
Finance charges payable under finance leases	**(8)**	(7)
Total ongoing cash finance costs	**(155)**	(182)
Ongoing amortisation of debt issue fees	**(5)**	(20)
Net finance expense on defined benefit pension schemes	**(10)**	(12)
Total ongoing non-cash finance costs	**(15)**	(32)
Double-running interest on external borrowings	**-**	-
Debt repayment premium and penalties	**(2)**	(58)
Transfer from cashflow hedge reserve for extinguishment of cashflow hedge	**(6)**	(8)
Debt issue fees immediately written off following repayment of borrowings (see note 20)	**(4)**	-
Duplicate breakdown cover – interest on refunds (see note 21)	**(3)**	-
Exceptional finance costs	**(15)**	(66)
Total finance costs	**(185)**	(280)

Within interest on external borrowings is £10m (2016: £13m) of interest charged on the Senior Term Facility and £8m (2016: £8m) charged in relation to the interest rate swaps used to hedge the variable element of the Senior Term Facility (see note 20).

Double-running interest costs related 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.

During the previous year, the Group repaid the original Class B notes of £655m (see note 20). As a result, the Group incurred early repayment penalties of £58m.

During the year, the Group repaid £106m of the Senior Term Facility (2016: £209m), following which, the Group transferred the fair value of the cashflow hedges related to the repayment of £6m (2016: £8m) from other comprehensive income to the income statement.

As part of the refinancing during the current year, the Group incurred a £2m premium cost in relation to the repayment of £165m of the Class B2 notes (see note 20). This premium was written off in the income statement.

7 Finance income

	2017 £m	2016 £m
Interest receivable	**1**	1
Total finance income	**1**	1

8 Staff costs

	2017 £m	2016 £m
Wages and salaries	**248**	269
Social security costs	**25**	24
Retirement benefit costs	**29**	34
	302	327

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

	2017	2016
Operational	**6,266**	6,620
Management and administration	**1,176**	1,240
	7,442	7,860

9 Directors' remuneration

	2017 £m	2016 £m
Directors' remuneration	**3**	3
Long-term incentive plans	**-**	2
Aggregate remuneration in respect of qualifying services	**3**	5
Members of defined benefit pension schemes	**2**	2
The amounts paid in respect of the highest paid director were as follows:		
Remuneration	**1**	2

The accrued pension of the highest paid director was £nil at 31 January 2017 (2016: £nil). The highest paid director had contributions to a money purchase pension plan of £88,000 (2016: £88,000).

10 Tax

The major components of the income tax expense are:

	2017 £m	2016 £m
Consolidated income statement		
Current income tax		
Current income tax charge	**22**	11
Adjustments in respect of previous years	**(1)**	-
	21	11
Deferred tax		
Effect of tax rate change on opening balances	**2**	7
Origination and reversal of temporary differences	**2**	(6)
Adjustment in respect of prior years	**2**	-
	6	1
Tax expense in the income statement	**27**	12

	2017 £m	2016 £m
Consolidated statement of comprehensive income		
Tax on the effective portion of changes in fair value of cash flow hedges	**1**	2
Tax on remeasurements of defined benefit pension liability	**(17)**	26
Income tax (credited) / charged directly to other comprehensive income	**(16)**	28

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

	2017 £m	2016 £m
Profit before tax	**104**	22
Tax at rate of 20.0% (2016: 20.2%)	**21**	4
Adjustments relating to prior year	**1**	-
Rate change adjustment on temporary differences	**2**	7
Expenses not deductible for tax purposes:		
- Share based payments	**2**	-
- Other non-deductible expenses / non-taxed income	**1**	1
Income tax expense reported in the consolidated income statement at effective rate of 22.1% (2016: 22.7%)	**27**	12

In addition to the tax expense disclosed above, a charge of £4m (2016: £1m) has arisen on discontinued operations (see note 3).

The 2017 effective rate has been calculated by excluding the rate change adjustment that has arisen as a result of the future reduction in corporation tax rates affecting the carrying value of the deferred tax balances and the impact of share-based payments. The 2016 effective rate has been calculated by excluding the rate change adjustment.

10 Tax (continued)

Deferred tax by type of temporary difference

	Consolidated statement of financial position		Consolidated income statement	
	2017	2016	**2017**	2016
	£m	£m	**£m**	£m
Accelerated depreciation for tax purposes	**8**	9	**1**	4
Revaluations of land and buildings to fair value	**(1)**	(1)	**-**	-
Rollover relief	**(2)**	(2)	**-**	-
Pension	**32**	15	**-**	1
Revaluation of cashflow hedges	**4**	5	**-**	(1)
Short-term temporary differences	**7**	9	**2**	(8)
Losses available for offsetting against future taxable income	**14**	17	**3**	5
Deferred tax expense			**6**	1
Net deferred tax assets	**62**	52		

Reconciliation of net deferred tax assets

	2017	2016
	£m	£m
At 1 February	**52**	81
Tax expense recognised in the income statement	**(6)**	(1)
Tax income / (expense) recognised in OCI	**16**	(28)
At 31 January	**62**	52

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

The UK corporation tax rate reduced from 20% to 19% on 1 April 2017 and then will reduce to 17% (2016: 18%) on 1 April 2020. These rates have been substantively enacted at the balance sheet date and have therefore been included in the deferred tax calculations.

Deferred tax has been recognised at an overall rate 17.2% for the UK at 31 January 2017 (2016: 18.4%) and 12.5% for Ireland as at 31 January 2016. The UK rate has been adjusted to reflect the expected reversal profile of the Group's temporary differences.

The Group has tax losses which arose in the UK of £76m (2016: £92m) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. A deferred tax asset has been recognised in respect of these losses.

11 Goodwill and other intangible assets

	Goodwill £m	Software £m	Total £m
Cost			
At 1 February 2015	1,198	129	1,327
Additions	-	62	62
Disposals	-	(7)	(7)
At 31 January 2016	**1,198**	**184**	**1,382**
Additions	-	56	56
Disposals	-	(29)	(29)
Disposed with sale of subsidiary	(26)	(14)	(40)
At 31 January 2017	**1,172**	**197**	**1,369**
Amortisation and impairment			
At 1 February 2015	-	71	71
Amortisation	-	21	21
Amortisation within discontinued operations	-	2	2
Disposals	-	(2)	(2)
At 31 January 2016	**-**	**92**	**92**
Amortisation	-	33	33
Amortisation within discontinued operations	-	1	1
Disposals	-	(29)	(29)
Disposed with sale of subsidiary	-	(5)	(5)
Exchange differences	-	1	1
At 31 January 2017	**-**	**93**	**93**
Net book value			
At 31 January 2017	**1,172**	**104**	**1,276**
At 31 January 2016	1,198	92	1,290

Within software, £53m (2016: £51m) relates to assets under construction which are not amortised.

Software additions comprise £5m (2016: £13m) in relation to internally developed assets and £42m (2016: £49m) in relation to separately acquired assets.

The group has reviewed and shortened the useful economic lives of some software assets, which are expected to be replaced by new software in the year ending 31 January 2018. As a result, amortisation for those assets has been recalculated resulting in an additional amortisation charge to the Income statement of £3m.

12 Property, plant and equipment

	Freehold Land & Buildings £m	Long Leasehold Land & Buildings £m	Vehicles £m	Plant & equipment £m	Total £m
Cost					
At 1 February 2015	24	10	92	107	233
Additions	-	-	47	21	68
Disposals	-	-	(50)	(3)	(53)
At 31 January 2016	**24**	**10**	**89**	**125**	**248**
Additions	-	-	50	14	64
Disposals	-	-	(36)	(42)	(78)
Disposed with sale of subsidiary	-	(3)	(6)	(8)	(17)
Exchange difference	-	-	1	1	2
At 31 January 2017	**24**	**7**	**98**	**90**	**219**
Depreciation and impairment					
At 1 February 2015	6	4	37	86	133
Charge for the year	1	-	20	9	30
Charge for the year within discontinued operations	-	-	1	-	1
Disposals	-	-	(36)	(2)	(38)
At 31 January 2016	**7**	**4**	**22**	**93**	**126**
Charge for the year	-	1	22	10	33
Disposals	-	-	(16)	(44)	(60)
Disposed with sale of subsidiary	-	(2)	(3)	(8)	(13)
Exchange difference	-	-	1	1	2
At 31 January 2017	**7**	**3**	**26**	**52**	**88**
Net book value					
At 31 January 2017	**17**	**4**	**72**	**38**	**131**
At 31 January 2016	17	6	67	32	122

The net book amount of vehicles includes £72m (2016: £65m) held under finance lease agreements. The accumulated depreciation on these assets is £26m (2016: £19m).

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 (2016: £8m).

Within plant and equipment £4m (2016: £10m) relates to assets under construction which are not depreciated.

13 Investments in joint ventures and associates

	2017			2016		
	Joint ventures £m	**Associates £m**	**Total £m**	Joint ventures £m	Associates £m	Total £m
At 1 February	**2**	**4**	**6**	1	3	4
Additions	**1**	**1**	**2**	1	-	1
Disposals	**-**	**(1)**	**(1)**	-	-	-
Share of profits	**-**	**1**	**1**	-	1	1
Dividend received	**-**	**(1)**	**(1)**	-	-	-
Impairment	**(1)**	**-**	**(1)**	-	-	-
At 31 January	**2**	**4**	**6**	2	4	6

The joint ventures of the Group which are indirectly held are detailed below.

Company	**Country of registration**	**Nature of business**
AA Law Limited (49% interest held)[1]	England	Insurance services
Motoriety UK Limited (50% interest held) [2]	England	Roadside services
Intelematics Europe Limited (32% interest held) [3]	England	Roadside services

[1] The Group exercises joint control over AA Law Limited through its equal representation on the Board.
[2] The Group exercises joint control over Motoriety UK Limited through its joint influence over key decision making.
[3] The Group exercises joint control over Intelematics Europe Limited through its joint influence over key decision making.

The investment in Motoriety was impaired from £1m to £nil as the Group does not deem the investment to be recoverable due to the loss making position of the company. On the 23 February 2017, the board of directors of Motoriety UK Limited resolved to commence a pre-pack administration for its assets to be disposed of by an administrator.

The associates of the Group which are indirectly held are listed below.

Company	**Country of registration**	**Nature of business**
ARC Europe S.A. (20% interest held)	Belgium	Roadside services

During the year, the Group sold its interest in the shares of ACTA Assistance SA to ARC Europe SA. The other parties owning shares in ACTA Assistance SA and ARC Europe SA also sold their interest in ACTA Assistance for shares in ARC Europe so that the overall interest held in ARC Europe remained the same for each party.

The Group also received a dividend from ACTA Assistance during the year of £1m.

14 Inventories

	2017 £m	2016 £m
Finished goods	**6**	5
	6	5

15 Trade and other receivables

	2017 **£m**	2016 £m
Current		
Trade receivables	**139**	144
Prepayments and accrued income	**23**	22
Other receivables	**2**	4
	164	170

Included in trade receivables are amounts of £70m (2016: £89m) relating to amounts due from insurance broking customers.

16 Cash and cash equivalents

	2017 **£m**	2016 £m
Cash at bank and in hand – available	**128**	74
Cash at bank and in hand – restricted	**8**	20
	136	94

Cash at bank and in hand, short term deposits include £8m (2016: £20m) held by and on behalf of the Group's insurance businesses which are subject to contractual or regulatory restrictions. These amounts are not readily available to be used for other purposes within the Group.

17 Amounts owed by/to parent undertakings

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

18 Trade and other payables

	2017 **£m**	2016 £m
Trade payables	**103**	**110**
Other taxes and social security costs	**25**	**23**
Accruals	**56**	**65**
Deferred income	**239**	**248**
Other payables	**32**	**31**
Obligations under finance lease agreements (note 28)	**47**	**40**
	502	**517**

Included in trade payables are amounts of £75m (2016: £86m) relating to amounts due to underwriters in respect of insurance broking activities.

19 Borrowings and loans

	2017 £m	2016 £m
Borrowings (see note 20)	**2,799**	2,893
Interest rate swap used for hedging (see note 26)	**20**	27
	2,819	2,920

The interest rate swap liability is shown on a net basis as the liability is settled with each counterparty on a net basis. On a gross basis, the asset is £19m (2016: £24m) and the liability is £39m (2016: £51m).

20 Borrowings

	Expected maturity date	Interest rate	Principal £m	Issue costs £m	Amortised issue costs £m	**Total at 31 January 2017 £m**	Total at 31 January 2016 £m
Senior Term Facility	31 January 2019	5.00%	348	(3)	2	**347**	452
Class A1 notes	31 July 2018	4.72%	175	(3)	3	**175**	474
Class A2 notes	31 July 2025	6.27%	500	(1)	-	**499**	499
Class A3 notes	31 July 2020	4.25%	500	(3)	2	**499**	498
Class A4 notes	31 July 2019	3.78%	55	(2)	2	**55**	249
Class A5 notes	31 January 2022	2.88%	700	(37)	1	**664**	-
Class B2 notes	31 July 2022	5.50%	570	(16)	6	**560**	721
		4.63%	**2,848**	**(65)**	**16**	**2,799**	2,893

At 31 January 2017, 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 3.00% until 31 July 2018 and then at 4.93% until 31 January 2019. All other borrowings have fixed interest rates. The weighted average interest rate for all borrowings of 4.63% has been calculated using the effective interest rate and carrying values on 31 January 2017.

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 A5 £m	Class B2 £m	Total £m
As at 1 February 2016	454	475	500	500	250	-	735	2,914
Issue / repayment date:								
31 August 2016	(106)	-	-	-	-	-	-	(106)
6 December 2016	-	(300)	-	-	(195)	700	(165)	40
Total	**348**	**175**	**500**	**500**	**55**	**700**	**570**	**2,848**

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

20 Borrowings (*Continued*)

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 of all interest due to expected maturity date, except the Class A5 notes which can be settled without penalty within 3 months of the expected maturity date.

Following the sale of the Irish business (see note 3), part of the sale proceeds were used to repay £106m of the Senior Term Facility on 31 August 2016. Under the terms of our borrowings, we have held back £24m from the net proceeds in ring-fenced available cash to be used for potential future acquisitions. Any amounts not committed to an acquisition within 12 months from the AA Ireland completion date must be used to repay either Class A notes or the Senior Term Facility.

On the 6 December 2016, the Group issued £700m Class A5 notes at an interest rate of 2.88%. Holders of £300m of A1 notes and £195m of A4 notes exchanged their A notes for the new A5 notes. From the remaining proceeds, the Group tendered £165m of Class B2 notes. The refinancing was completed at a premium of £30m and with issue costs of £8m. In line with the Group accounting policy, £37m of costs associated with the A1 and A4 notes were capitalised. This consisted of £28m of the premium, £7m of new issue fees and £2m of unamortised issue costs relating to the A1 and A4 notes that were exchanged. Costs associated with the B2 notes have been written off. This consisted of £2m of the premium, £1m of new issue costs and £3m of unamortised issue costs relating to the B2 notes that were tendered.

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 and the senior leverage ratio below 5.5x. 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 debts.

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 notes 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.

21 Provisions

	Property Leases £m	Restructuring £m	Other £m	Duplicate breakdown cover £m	Total £m
At 1 February 2015	18	1	1	-	20
Utilised during the year	(4)	-	(1)	-	(5)
Released unutilised during the year	(2)	-	-	-	(2)
Charge for the year	1	-	1	-	2
At 31 January 2016	**13**	**1**	**1**	-	**15**
Utilised during the year	(1)	(1)	(1)	-	(3)
Transfer to discontinued operations	-	(1)	-	-	(1)
Charge for the year	5	4	-	10	19
At 31 January 2017	**17**	**3**	**-**	**10**	**30**
Current	6	3	-	10	19
Non-current	11	-	-	-	11
At 31 January 2017	**17**	**3**	**-**	**10**	**30**
Current	6	1	1	-	8
Non-current	7	-	-	-	7
At 31 January 2016	**13**	**1**	**1**	**-**	**15**

The property lease provision relates to future onerous lease costs of vacant properties for the remaining period of the lease, net of expected sub-letting income. These sums are mainly expected to be paid out over the next 6 years however it will take 37 years to fully pay out all amounts provided for. The provision has been calculated on a pre-tax discounted basis.

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

Other provisions primarily comprised a provision for an onerous contract which has been utilised in 2017.

We are aware that there is some duplication of roadside assistance cover taken by a limited number of business-to-business customers who are personal Members and hold AVAs (Added Value Accounts) with our banking partners. While some may be unaware that they have duplicate cover, others choose to maintain this to receive the benefits of Membership. Through the review of data for the new Customer Relationship Management systems, we identified a group of customers for whom the benefit of holding both forms of cover is not clear. We proposed a programme of remediation for them which has the support of the regulatory authority. We have provided a total of £10m for our estimate of the refunds due of which £7m is expected to relate to premiums previously paid for breakdown cover and £3m for interest payable on those premiums. We expect to pay out these amounts during the next financial year.

22 Share capital

	2017 £m	2016 £m
Allotted, called up and fully paid		
20,000,002 ordinary shares of £1 each	**-**	20
20 ordinary shares of £1 each	**-**	-
	-	20

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

During the year, the Company undertook a capital reduction to reduce the nominal value of share capital and increase the distributable reserves.

23 Reserves

	Currency translation reserve £m	Cashflow hedge reserve £m	Retained earnings £m	Total £m
At 31 January 2015	**(2)**	**(18)**	**(917)**	**(937)**
Retained profit for the year	-	-	17	17
Other comprehensive income:				
Exchange differences on translation of foreign operations	1	-	-	1
Remeasurement losses on defined benefit schemes (note 24)	-	-	149	149
Tax effect of remeasurement losses on defined benefit schemes (note 10)	-	-	(26)	(26)
Effective portion of changes in fair value of cash flow hedges	-	10	-	10
Tax effect of effective portion of changes in fair value of cash flow hedges	-	(2)	-	(2)
Share-based payments (note 33)	-	-	5	5
Dividends paid	-	-	(60)	(60)
At 31 January 2016	**(1)**	**(10)**	**(832)**	**(843)**
Retained profit for the year	**-**	**-**	**157**	**157**
Other comprehensive income:				
Exchange differences on translation of foreign operations	**2**	**-**	**-**	**2**
Remeasurement losses on defined benefit schemes (note 24)	**-**	**-**	**(99)**	**(99)**
Tax effect of remeasurement losses on defined benefit schemes (note 10)	**-**	**-**	**17**	**17**
Effective portion of changes in fair value of cash flow hedges	**-**	**13**	**-**	**13**
Tax effect of effective portion of changes in fair value of cash flow hedges	**-**	**(1)**	**-**	**(1)**
Share-based payments (note 33)	**-**	**-**	**12**	**12**
Dividends paid	**-**	**-**	**(60)**	**(60)**
At 31 January 2017	**1**	**2**	**(805)**	**(802)**

23 Reserves *(continued)*

Currency translation reserve

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

Cashflow hedge reserve

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

Dividends

In the year ended 31 January 2017, total dividends of £3 (2106: £3) per qualifying ordinary share were paid. Dividends are paid from the unconsolidated distributable reserves of AA Intermediate Co Limited 'the Company'. As at 31 January 2017, the Company had distributable reserves of £20m (2016: £77k). The dividend paid during the current year was paid following receipt of a dividend of £60m from a subsidiary undertaking, AA Acquisition Co Limited.

24 Pensions

The Group operates two funded defined benefit pension schemes: the AA UK Pension Scheme (AAUK) and the AA Ireland Pension Scheme (AAI). The assets of the schemes are held separately from those of the Group in independently administered funds. The AAUK scheme has final salary sections and a Career Average Revalued Earnings (CARE) section which accrues benefits on an average salary basis. All AAUK sections are largely 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. During the year, following the sale of the Irish business by the Group (see note 3), AA Corporation Limited, a UK subsidiary of the Group became the sponsor of the AAI scheme.

The AAUK pension scheme is governed by a corporate trustee whose board is currently composed of member-nominated and company-nominated directors. The AAI pension scheme is governed by a corporate trustee whose board is currently composed of company-nominated directors of which some are also members of the scheme. For both pension schemes the company-nominated directors include an independent director whom the trustee board directors have nominated as Chairman. The Trustee of each scheme is responsible for paying members' benefits and for investing scheme assets, which are legally separate from the Group.

The valuations have been based on a full assessment of the liabilities of the schemes which have been updated where appropriate to 31 January 2017 by independent qualified actuaries.

The amounts recognised in the balance sheet are as follows:

	As at 31 January 2017			
	AAUK £m	AAI £m	AAPMP £m	Total £m
Present value of the defined benefit obligation in respect of pension plans	(2,515)	(53)	(59)	(2,627)
Fair value of plan assets	2,190	42	-	2,232
Deficit	**(325)**	**(11)**	**(59)**	**(395)**

	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)**

24 Pensions *(continued)*

The increase in the deficit is due to changes in the financial assumptions, primarily a decrease in the discount rate partially offset by the updating of mortality rates.

In November 2013, the Group completed the AAUK pension scheme triennial valuations agreeing a deficit of £202m with the pension trustees and implementing an asset backed funding scheme. The asset backed funding scheme provides a long-term deficit reduction plan where the Group makes an annual deficit reduction contribution, increasing with inflation (capped at 5% each year), over a period of 25 years up to 2038 secured on the Group's brands. In the year ended 31 January 2017 this contribution was £13m. The Group also made an additional one off deficit reduction payment of £6m to the AAUK scheme bringing total deficit reduction contributions for the AAUK scheme to £19m. The Group is currently committed to pay c.£13m in annual deficit reduction contributions for the AAUK scheme.

Using an inflation assumption of 3.2% and a discount rate assumption of 2.7%, the present value of the future deficit reduction contributions has been calculated and based on these assumptions, the Group does not expect the present value of deficit reduction contributions to exceed the IAS 19 deficit. The Group has also considered circumstances in which a surplus could be created and note that, in this event, the Group would have an unconditional right to a refund of the surplus assuming the gradual settlement of AAUK liabilities over time until all members have left the plan.

The triennial valuation of the AAUK pension scheme as at 31 March 2016 is currently underway. It is likely, following completion of the valuation, that both the ongoing and deficit reduction employer contributions the Group is required to pay will increase above current levels. In light of this anticipated increase in cost, we have undertaken a review of the options for mitigating current and future liabilities. We are proposing to retain a defined benefit arrangement allowing all members of the AAUK scheme to accrue future service benefits in a single modified CARE defined benefit section of the scheme. This will involve moving employees from the final salary sections of the AAUK scheme into the modified CARE section. On the 20 March 2017, we commenced a consultation process with employees affected by the proposed changes, which has now ended. These changes, if implemented, will be taken into account in agreeing the future contributions and deficit reduction plan with the pension trustees which should be finalised by 30 June 2017.

The last triennial valuation for the AAI scheme was in December 2013. The Group made deficit reduction contributions of c. £1m in the year ended 31 January 2017 and will continue to make annual deficit reduction contributions, increasing with inflation, until December 2023 or until an alternative agreement is signed with the trustees.

The triennial valuation of the AAI scheme is due as at 31 December 2016, and has to be finalised during the 2018 financial year.

In total, the Group is currently committed to pay c. £19m in ongoing employer contributions and c. £14m in deficit reduction employer contributions to its defined benefit plans (AAUK and AAI) in the year ending 31 January 2018.

24 Pensions *(continued)*

	Assets £m	Liabilities £m	Income statement £m	Statement of comprehensive income £m
Balance at 1 February 2016	1,850	(2,146)	-	-
Current service cost	-	(29)	(29)	-
Interest on defined benefit scheme assets / (liabilities)	68	(78)	(10)	-
Amounts recognised in the income statement	**68**	**(107)**	**(39)**	-
Effect of changes in financial assumptions	-	(613)	-	(613)
Effect of changes in demographic expectations	-	110	-	110
Effect of experience adjustment	-	81	-	81
Return on plan assets excluding interest income	323	-	-	323
Amounts recognised in the statement of comprehensive income	**323**	**(422)**	**-**	**(99)**
Foreign exchange gain / (loss)	**5**	**(6)**	**-**	**(1)**
Contribution from scheme participants	1	(1)	-	-
Benefits paid from scheme assets	(55)	55	-	-
Ongoing employer contributions	21	-	-	-
Deficit reduction employer contributions	19	-	-	-
Movements through cash	**(14)**	**54**	**-**	**-**
Balance at 31 January 2017	**2,232**	**(2,627)**	**-**	**-**

24 Pensions *(continued)*

	Assets £m	Liabilities £m	Income statement £m	Statement of comprehensive income £m
Balance at 1 February 2015	**1,844**	**(2,278)**	**-**	**-**
Current service cost	-	(34)	(34)	-
Past service cost	-	(2)	(2)	-
Interest on defined benefit scheme assets / (liabilities)	56	(68)	(12)	-
Amounts recognised in the income statement	**56**	**(104)**	**(48)**	-
Effect of changes in financial assumptions	-	185	-	185
Effect of experience adjustment	-	1	-	1
Return on plan assets excluding interest income	(37)	-	-	(37)
Amounts recognised in the statement of comprehensive income	**(37)**	**186**	**-**	**149**
Foreign exchange loss	**-**	**(1)**	**-**	**(1)**
Contribution from scheme participants	1	(1)	-	-
Benefits paid from scheme assets	(52)	52	-	-
Ongoing employer contributions	24	-	-	-
Deficit reduction employer contributions	14	-	-	-
Movements through cash	**(13)**	**51**	-	**-**
Balance at 31 January 2016	**1,850**	**(2,146)**	**-**	**-**

A redundancy exercise was carried out during the year ended 31 January 2016 which affected 28 members of the AAUK Scheme. Under the terms of the AAUK Scheme the members were entitled to enhanced pension benefits upon redundancy and the impact of this was a past service cost of £2m in relation to the AAUK scheme.

Fair value of plan assets

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

The table below shows the AAUK plan assets split between those that have a quoted market price and those that are unquoted. Of the AAI scheme 33.1% (2016: 26.6%) of assets do not have a quoted market price.

24 Pensions *(continued)*

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

	2017		2016	
	Assets with a quoted market price £m	**Assets without a quoted market price £m**	Assets with a quoted market price £m	Assets without a quoted market price £m
Equities	**184**	**258**	136	265
Bonds	**876**	**183**	667	122
Property	**81**	**168**	79	172
Hedge funds	**-**	**401**	-	356
Cash / net current assets	**37**	**2**	17	1
Total plan assets	**1,178**	**1,012**	899	916
Actual return on AAUK plan assets	**388**		18	

Investment strategy

The AAUK trustee determines its investment strategy after taking advice from a professional investment adviser. The scheme's investment strategy has been set following an asset / liability review which considered a wide range of investment opportunities available to the Scheme and how they might perform in combination. Other factors were also taken into account such as the strength of the employer covenant, the long term nature of the liabilities and the funding plan agreed with the employer.

The trustee aims to achieve the scheme's investment objectives through investing in a diversified mix of growth assets which, over the long term, are expected to grow in value by more than low risk assets like cash and gilts. This is done within a broad liability driven investing framework that uses such cash, gilts and other hedging instruments like swaps in a capital efficient way. In combination this efficiently captures the trustee risk tolerances and return objectives relative to the scheme's liabilities. A number of investment managers are appointed to promote diversification by assets, organisation and investment style.

To diversify sources of return and risk, the AAUK scheme invests in many asset classes and strategies, including equities, bonds and property funds which primarily rely on the upward direction of the underlying markets for returns, and also hedge funds which also invest in asset classes like equities, bonds and currencies, but in such a way that relies more on the skill of the investment manager to add returns whilst hedging against downward market moves.

The trustee’s investment advisors carries out detailed ongoing due diligence on funds in all asset classes from both operational and investment capability standpoints and any funds which are not expected to achieve their investment performance targets are replaced where possible.

24 Pensions *(continued)*

Pension plan assumptions

The principal actuarial assumptions were as follows:

%	AAUK **2017** **%**	2016 %	AAI **2017** **%**	2016 %	AAPMP **2017** **%**	2016 %
Pensioner discount rate	**2.7**	3.6	**1.6**	1.7	**2.7**	3.6
Non pensioner discount rate	**2.9**	3.8	**2.4**	2.6	**2.7**	3.8
Pensioner RPI	**3.5**	2.9	**-**	-	**3.5**	2.9
Non pensioner RPI	**3.5**	3.2	**-**	-	**3.5**	3.2
Rate of increase of pensions in payment - pensioner	**3.2**	2.8	**-**	-	**-**	-
Rate of increase of pensions in payment - non pensioner	**3.2**	3.0	**-**	-	**-**	-
Pensioner increase for deferred benefits	**2.4**	2.2	**1.5**	1.5	**-**	-
Medical premium inflation rate	**-**	-	**-**	-	**7.5**	6.9

Mortality assumptions are set using standard tables based on scheme specific experience where available and an allowance for future improvements. For 2017, the assumptions used were in line with the SAPS (S2) series mortality tables (2016 – SAPS (S1) series) with future improvements in line with the CMI_2015 model with a 1.5% long-term rate of improvement (2016 – CMI_2012 model with a 1.5% long-term rate of improvement). The AAI scheme mortality assumptions are set using standard tables with scheme specific adjustments.

The AA schemes' overall assumptions are that an active male retiring in normal health currently aged 60 will live on average for a further 27 years and an active female retiring in normal health currently aged 60 will live on average for a further 30 years.

Sensitivity analysis

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

	For the year ending 31 January 2017		
	AAUK £m	AAI £m	AAPMP £m
Increase of 0.25% in discount rate	127	3	2
Increase of 0.25% in Inflation rate	(102)	(1)	-
Increase of 1% in medical claims inflation	-	-	(9)
Increase of one year of life expectancy	(90)	(2)	-

An equivalent decrease in the assumptions at 31 January 2017 would have had the equal but opposite effect on the amounts shown above, on the basis that all other variables remain constant.

The weighted average duration of plan liabilities at 31 January 2017 is around 21 years.

Pension scheme risks

The AAUK and AAI schemes have exposure to a number of risks because of the investments they make in following their investment strategy. Investment objectives and risk limits are implemented through the investment management agreements in place with the Schemes' investment managers and monitored by the Trustees by regular reviews of the investment portfolios. In addition, under guidance from their investment advisers the Trustees monitor estimates of key risks on an ongoing basis such as those shown below. A number of measures are taken to mitigate these risks where possible.

24 Pensions *(continued)*

Interest rate risk and inflation risk – this is the risk that the present value of future cash flows of a financial assets or liability will fluctuate because of changes in market interest rate and / or expected inflation. The scheme is subject to interest rate and inflation risk because some of the scheme's investments are in gilts, index linked gilts and other hedging assets. These investments are held in order to mitigate the impact of interest rate and inflation changes on the scheme's liabilities.

Credit risk - this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. This risk mainly relates to the Scheme's bonds and is mitigated by carrying out due diligence and investing only in bond funds which are well diversified in terms of credit instrument, region, credit rating and issuer of the underlying bond assets. To reduce risk further, the underlying bond assets within a fund are ring fenced, and the Scheme diversifies across a number of bond funds.

Currency risk - the Scheme is subject to currency risk because some of the Scheme's investments are in overseas markets. The Trustee hedges some of this currency risk by investing in investment funds which hold currency derivatives to protect against adverse fluctuations in the relative value of its portfolio positions as a result of changes in currency exchange rates.

Market price risk - this is the risk that the fair value or future cash flows of a financial asset such as equities will fluctuate because of changes in market prices (other than those arising from interest rate, inflation or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Scheme manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets and investment managers.

Financial derivatives risk – The Scheme does not directly hold any financial derivatives but instead invests in investment funds which hold the derivatives required to hedge the Scheme's interest rate, inflation and currency risks The Scheme also permits some of the investment managers to use derivative instruments if these are being used to contribute to a reduction of risks or facilitate efficient portfolio management of their funds. The main risks associated with financial derivatives include: losses may exceed the initial margin; counterparty risk where the other party defaults on the contract; and liquidity risk where it may be difficult to close out a contract prior to expiry. These risks are managed by monitoring of investment managers to ensure they use of reasonable levels of market exposure relative to initial margin and positions are fully collateralised on a daily basis with secure cash or gilts collateral.

The AAUK scheme had hedged around 50% of interest rate risk and around 75% of inflation risk (of the liabilities) as at 31 January 2017 and hedging had been fairly constant at those levels for some years as part of a policy to reduce financial risks to the Scheme. The current longer term objective is to aim to hedge around 75% of both the interest rate risk and inflation risk of the liabilities; this will help to further reduce funding level volatility. More interest rate hedging will be added in due course as, and when, prevailing pricing is regarded as reasonable value in the circumstances, or if any other reasons drive a policy change on risk appetite.

25 Impairment of intangible assets

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

The carrying value of goodwill by CGU is as follows:

	2017 **£m**	2016 £m
Roadside Assistance	**874**	874
Insurance Services	**240**	240
Driving Schools	**26**	26
DriveTech	**32**	32
Ireland	**-**	26
	1,172	1,198

The Group has performed impairment testing at 31 January 2017 and 31 January 2016. The impairment test compares the recoverable amount of the CGU to its carrying value. The Ireland segment was disposed of on the 11 August 2016 (see note 3).

The recoverable amount of each CGU has been determined based on a value in use calculation using cash flow projections from the Group's three year plan up to 31 January 2020 and a reasonable expectation of growth in the subsequent two years. For the purposes of the impairment test terminal values have been calculated using the Gordon growth model and a nil growth assumption which is lower than the expected long term average growth rate of the UK economy. Cash flows have been discounted at a pre-tax rate reflecting the time value of money and the risk specific to these cash flows. This has been determined as a pre-tax rate of 9.0% (2016: 9.9%).

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

26 Financial assets and financial liabilities

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

Financial assets

	2017 **£m**	2016 £m
Loans and receivables		
Cash and cash equivalents	**136**	**94**
Trade receivables	**139**	**144**
Other receivables and accrued income	**16**	**16**
Amounts owed by parent undertaking	**1,212**	**1,214**
Total financial assets	**1,503**	**1,468**

26 Financial assets and financial liabilities *(continued)*

Financial liabilities

	2017 £m	2016 £m
Measured at fair value through other comprehensive income		
Interest rate and fuel swaps used for hedging	**20**	**27**
Loans and borrowings		
Trade payables	**103**	**110**
Other payables	**55**	**63**
Obligations under finance lease agreements	**67**	**61**
Borrowings	**2,799**	**2,893**
Total financial liabilities	**3,044**	**3,154**

Fair values

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

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

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

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

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

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

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

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

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

26 Financial assets and financial liabilities *(continued)*

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

At 31 January 2017:

		Fair value measurement using		
	Carrying value £m	Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
Financial liabilities measured at fair value				
Interest rate and fuel swaps (note 19)	20	-	20	-
Liabilities for which fair values are disclosed				
Loan notes (note 20)	2,452	2,656	-	-

At 31 January 2016:

		Fair value measurement using		
	Carrying value £m	Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
Financial liabilities measured at fair value				
Interest rate and fuel swaps (note 19)	27	-	27	-
Liabilities for which fair values are disclosed				
Loan notes (note 20)	2,441	2,528	-	-

There have been no transfers between the levels and no non-recurring fair value measurements of assets and liabilities during the two years to 31 January 2017.

27 Financial risk management objectives and policies

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

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

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

Market risk

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

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

	2017 £m	2016 £m
Fixed rate instruments		
Financial liabilities	**(2,518)**	(2,502)
Effect of interest rate swaps	**(348)**	(454)
Net exposure to fixed rate instruments	**(2,866)**	(2,956)
Variable rate instruments		
Financial liabilities	**(347)**	(452)
Effect of interest rate swaps	**348**	454
Net exposure to variable rate instruments	**1**	2

Sensitivity of fixed-rate instruments

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

Sensitivity of variable rate instruments

An increase of 50 basis points in interest rates at 31 January 2017 would have increased equity by £2m (2016: £4m) and would have had no impact on profit or cash. A decrease to interest rates of the same magnitude will have an equal and opposite effect on equity and profit. This calculation assumes that the change occurred at the year end and had been applied to risk exposures existing at that date.

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

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

Credit risk

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

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

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

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

The ageing analysis of trade receivables is as follows:

			Past due but not impaired		
	Total £m	Neither past due nor impaired £m	< 30 days £m	30 - 60 days £m	60+ days £m
2017	**139**	**131**	**4**	**-**	**4**
2016	144	135	2	2	5

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

	2017 £m	2016 £m
At 1 February	**2**	2
Charge for the year	**2**	1
Utilised	**(1)**	-
Unused amounts reversed	**(1)**	(1)
At 31 January	**2**	2

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

Liquidity risk

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

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

At 31 January 2017:

	On demand £m	Less than 1 year £m	1 to 2 years £m	2-5 years £m	over 5 years £m	Total £m
Loans and borrowings	-	126	641	1,536	1,195	**3,498**
Obligation under finance leases	-	51	13	8	-	**72**
Other payables and accruals	-	55	-	-	-	**55**
Trade payables	-	103	-	-	-	**103**
	-	**335**	**654**	**1,544**	**1,195**	**3,728**
Interest rate swaps used for hedging						
Assets (inflow)	-	(14)	(8)	-	-	**(22)**
Liabilities	-	23	18	-	-	**41**
	-	9	10	-	-	**19**
	-	**344**	**664**	**1,544**	**1,195**	**3,747**

At 31 January 2016:

	On demand £m	Less than 1 year £m	1 to 2 years £m	2-5 years £m	over 5 years £m	Total £m
Loans and borrowings	-	138	140	1,990	1,436	**3,704**
Obligation under finance leases	-	43	14	8	-	**65**
Other payables and accruals	-	63	-	-	-	**63**
Trade payables	-	110	-	-	-	**110**
	-	354	154	1,998	1,436	**3,942**
Interest rate swaps used for hedging	-	(9)	(3)	-	-	**(12)**
Assets (inflow)	-	16	8	5	-	**29**
Liabilities	-	7	5	5	-	**17**
	-	361	159	2,003	1,436	**3,959**

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

Capital management

The Group considers its capital to be a combination of net debt and share capital.

The capital structure at 31 January 2017 can be summarised as below:

	Expected maturity date	Interest rate %	Principal £m
Senior Term Facility	31 January 2019	5.00	348
Class A1 notes	31 July 2018	4.72	175
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	55
Class A5 notes	31 January 2022	2.88	700
Class B2 notes	31 July 2022	5.50	570
Total borrowings		**4.63**	**2,848**
Finance lease obligations			**67**
Cash and cash equivalents			**(136)**
Total net debt			**2,779**
Share capital			**-**
Total capital			**2,779**

The weighted average interest rate for all borrowings of 4.63% has been calculated using the effective interest rate and carrying values on 31 January 2017.

The Group's objectives when managing capital are:

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

As a highly leveraged Group, our intention is to reduce 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.

Excluding the remaining Class A1 and Class A4 notes, which are nearing maturity, we do not envisage making material early repayment of the other bonds because of the associated penalties. The substantial IT investment is modernising the business and will also substantially reduce the level of IT spend in subsequent years. Once this is complete, we expect to revert to more normalised levels of capital expenditure. This, together with very low working capital requirements, will significantly improve net cash flow.

We therefore expect to be able to make further repayments to our Senior Term Facility over its remaining life before refinancing any residual at or before maturity.

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

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

	2017 £m	2016 £m
Senior Term Facility	**348**	454
Class A notes	**1,930**	1,725
Less: cash and cash equivalents	**(136)**	(94)
Net Senior Secured Debt[1]	**2,142**	2,085
Class B2 notes	**570**	735
Finance lease obligations	**67**	61
Net Debt	**2,779**	2,881
Net debt ratio[2]	**6.7x**	6.9x
Senior leverage ratio[3]	**5.2x**	5.0x
Class A free cash flow: debt service[4]	**3.3x**	3.6x
Class B free cash flow: debt service[5]	**2.3x**	2.4x

1 Principal amounts of the Senior Term Facility and Class A notes less cash and cash equivalents
2 Ratio of Net Debt to Trading EBITDA for the last 12 months
3 Ratio of Net Senior Secured Debt to Trading EBITDA for the last 12 months
4 Ratio of last 2 months free cash flow to proforma debt service relating to the Senior Term Facility and Class A notes
5 Ratio of last 12 months free cash flow to proforma debt service

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 and the senior leverage ratio below 5.5x. The Class B2 notes require us to maintain the Class B free cash flow to debt service ratio in excess of 1x. The Group was in compliance with all covenants throughout the period and as at 31 January 2017.

The Group includes regulated companies which are required to hold sufficient capital to meet acceptable solvency levels based on the relevant regulators' requirements (see note 16). There are no other externally imposed capital requirements.

The cash within the ring-fenced group headed by AA Mid Co Limited (the parent company of AA Intermediate Co Limited) is part of the whole business securitisation (WBS). A dividend cannot be paid from the ring-fenced group until a number of criteria have been met and therefore the Group's policy is to pay dividends from the AA Mid Co Limited group in accordance with the terms of the debt covenants as outlined below.

The Class A and Class B2 notes 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 debts.

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.

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

Key Cash Release Metrics

	2017	2016
Net senior leverage[1]	**5.2x**	5.0x
Excess cash flow [2]	**£194m**	£165m
Fixed charge cover ratio [3]	**3.0x**	2.8x
Consolidated net income [4]	**£214m**	£197m

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

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 and reduced by dividends.

28 Commitments and contingencies

Operating lease commitments

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

	Land and Buildings 2017 £m	Land and Buildings 2016 £m
Leases expiring:		
Within one year	**1**	-
Between one and five years	**10**	11
After five years	**23**	28
	34	39
Income from operating sub-leases	**(4)**	(4)
Amounts included in onerous lease provisions	**(4)**	(6)
	26	29

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

Finance lease commitments

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

	2017 Present value of payments £m	2017 Minimum payments £m	2016 Present value of payments £m	2016 Minimum payments £m
Within one year	**47**	**51**	**40**	**43**
Between one and five years	**20**	**21**	**21**	**22**
Total minimum lease payments	**67**	**72**	**61**	**65**
Less amounts representing finance charge	**-**	**(5)**	**-**	**(4)**
Present value of minimum lease payments	**67**	**67**	**61**	**61**

28 Commitments and contingencies (continued)

Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £14m (2016: £15m).

29 Principal subsidiary undertakings

The subsidiary undertakings of AA Intermediate Co Limited, all of which are wholly owned except where stated, are listed in note 8 of the Company financial statements.

30 Auditor's remuneration

	2017 £m	2016 £m
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**1**	1
Corporate finance services	**-**	1

The fee for the audit of these financial statements was £10,000 (2016: £10,000).
Corporate finance services mainly relate to reporting accountant work that would normally be undertaken by the auditor.

31 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	**2017 £m**	2016 £m
ACTA SA.	Call handling fees paid	**2**	2
ARC Europe SA.	Registration fees paid	**1**	1

Note that the Group's interest in ACTA SA. was sold in the year (see note 13).

The outstanding balances with other AA plc group companies are as follows:

Entity	**Relationship**	**2017 £m**	2016 £m
AA Mid Co Limited	Immediate parent	**1,205**	1,205
AA plc	Indirect parent	**9**	9
		1,214	1,214

Cross-company guarantees

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

32 Compensation of key management personnel of the Group

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group.

Key management personnel consists of the Executive Chairman, Chief Financial Officer, Non-Executive Directors and the Executive Management Committee.

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

	2017 £m	2016 £m
Short-term employee benefits	**6**	6
Share-based payments – MVP and LTBP shares (see note 33)	**8**	2
Total compensation paid to key management personnel	**14**	8

33 Share-based payments

	2017 £m	2016 £m
Share-based payments - MVP shares	**8**	2
Share-based payments - LTBP	**2**	2
Share-based payments - staff share incentive plan	**2**	1
	12	5

Management value participation shares (MVP shares)

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

A further 36 million MVP shares were issued at £0.001 per share on 22 December 2015.

At 31 January 2016, 14.2% of the issued MVP shares were held in the Employee Benefit Trust (EBT). On 22 April 2016, awards were granted by the EBT to further key members of senior management over ordinary shares which convert from the remaining 14.2% (amounting to 8,520,000) MVP shares.

33 Share-based payments *(continued)*

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

	Vesting Date	**2017 No. of shares**	2016 No. of shares	**2017 Fair value per share £**	2016 Fair value per share £
June 2014 awards:					
A1 shares	23 June 2017	**8,000,000**	8,000,000	**0.25**	0.25
B1 shares	23 June 2018	**8,000,000**	8,000,000	**0.26**	0.26
C1 shares	23 June 2019	**8,000,000**	8,000,000	**0.26**	0.26
December 2015 awards:					
A2 shares	23 June 2017	**9,160,000**	9,160,000	**0.38**	0.38
B2 shares	23 June 2018	**9,160,000**	9,160,000	**0.40**	0.40
C2 shares	23 June 2019	**9,160,000**	9,160,000	**0.40**	0.40
April 2016 awards:					
A2 shares	23 June 2017	**2,840,000**	-	**0.35**	-
B2 shares	23 June 2018	**2,840,000**	-	**0.35**	-
C2 shares	23 June 2019	**2,840,000**	-	**0.35**	-
Total		**60,000,000**	51,480,000		

The A1 and A2 shares can also be converted on the fourth or fifth anniversary of admission and the unvested B1 and B2 shares can also be converted on the fifth anniversary of admission.

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

	Vesting period 3 year %	**4 year %**	**5 year %**
Risk-free interest rate for A1, B1 and C1 MVP shares	0.88	1.35	1.82
Risk-free interest rate for A2, B2 and C2 MVP shares issued Dec 2015	0.55	0.77	0.98
Risk-free interest rate for A2, B2 and C2 MVP shares issued Apr 2016	0.44	0.38	0.55

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

33 Share-based payments *(continued)*

Long Term Bonus Plan (LTBP)

On 13 August 2015, the ultimate parent company, AA plc's EBT issued 3 million conditional awards over market purchased ordinary shares to certain key members of senior management at nil cost. A further 1 million conditional ordinary shares were issued on 16 November 2015.

These shares were divided into three tranches, A, B and C and vest following satisfaction of a Total Shareholder Return (TSR) performance condition of 12% per annum compound growth against the admission price of £2.50 which is tested on the third, fourth and fifth anniversaries of admission to the London Stock Exchange and satisfaction of certain individual performance targets.

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

	Vesting Date	**2017 No. of shares**	2016 No. of shares	**2017 Fair value per share £**	2016 Fair value per share £
August 2015 awards					
A shares	26 June 2017	757,792	1,010,219	**2.93**	2.93
B shares	26 June 2018	745,956	1,010,219	**2.39**	2.39
C shares	26 June 2019	740,236	1,010,219	**1.88**	1.88
November 2015 awards					
A shares	26 June 2017	247,104	247,104	**1.43**	1.43
B shares	26 June 2018	247,104	247,104	**1.12**	1.12
C shares	26 June 2019	247,104	247,104	**0.83**	0.83
Total		**2,985,296**	**3,771,969**		

If the awards over A shares do not vest on the third or fourth anniversary of admission, then they are retested on the fourth and fifth anniversary. If the awards over B shares do not vest on the fourth anniversary of admission, then they are retested on the fifth anniversary.

The number of ordinary shares over which awards are held has reduced by 786,673 due to the adjustment to the entitlement of leavers during the financial year.

33 Share-based payments *(continued)*

The awards over shares issued in August 2015 were valued using a Monte Carlo simulation model and 20% volatility assumption to calculate the fair value using the following risk-free interest rates:

	Vesting period		
	3 year	**4 year**	**5 year**
Risk-free interest rate (%)	0.70	0.72	1.00

The awards over shares issued in November 2015 were valued using a Monte Carlo simulation model and 24% volatility assumption to calculate the fair value using the following risk-free interest rates:

	Vesting period		
	3 year	**4 year**	**5 year**
Risk-free interest rate (%)	0.58	0.79	0.99

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

Staff share incentive plans

The Group has a number of Share Incentive Plans (SIP).

Under the SIP, employees are able to buy Partnership shares by making weekly or monthly payments into the SIP.

In addition, for every Partnership share an employee purchases the Company will match this on a 1:1 basis (Matching Shares).

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

Share type	Award date	Vesting date	**No. of shares 2017[1]**	Volatility %	Risk-free interest rate %	Fair value per share £	**Charge for year ended 31 January 2017 £m**	Charge for year ended 31 January 2016 £m
2015 SIP								
Partnership shares	29 August 2014	29 August 2015	**2,132,766**	21	0.55	0.23	**-**	-
Matching shares	29 August 2014	29 August 2018	**2,132,766**	21	0.55	2.58	**1**	1
2016 SIP								
Matching shares	11 January 2016	11 January 2019	**1,366,211**	26	0.76	2.93	**1**	-
			5,631,743				**2**	1

The SIPs are valued using a Black Scholes model.

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

The 2016 SIP scheme began in January 2016 with the issue of 111,577 shares in that month. Shares were then issued each month until December 2016.

The 2017 SIP scheme began in February 2017, after the current year end.

34 Ultimate parent undertaking and controlling party

The Group is a wholly owned subsidiary of AA Mid Co. Limited, a company registered in United Kingdom and Wales whose registered office is Fanum House, Basing View, Basingstoke, RG21 4EA.

The ultimate parent undertaking and controlling party, which is also the parent of the largest group to consolidate these financial statements, is AA plc whose registered office is at Fanum House, Basing View, Basingstoke, RG21 4EA. Copies of the consolidated parent financial statements are available from the website www.theaaplc.com/investors.

35 Accounting standards, amendments and interpretations

New accounting standards, amendments and interpretations adopted in the year

In the year ended 31 January 2017, the Group did not adopt any new standards or amendments issued by the IASB or interpretations issued by the IFRS Interpretations Committee (IFRS IC) that have had a material impact on the consolidated financial statements. Other new standards, amendments and interpretations adopted, that have not had a material impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements, were:

	Effective date
• IAS 1: Disclosure Initiative	1 January 2016
• Annual Improvements to IFRS 2012-2014	1 January 2016
• IFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016

New accounting standards, amendments and interpretations not yet adopted

A number of new standards, amendments and interpretations, which have not been applied in preparing these financial statements, have been issued and are effective for annual reports beginning after 1 February 2016:

	Effective date
• IAS 12: Recognition of Deferred Tax assets for unrealised losses	1 January 2017
• IAS 7: Disclosure Initiative	1 January 2017
• IFRS 15: Revenue from Contracts with Customers	1 January 2018
• IFRS 9: Financial Instruments	1 January 2018
• IFRS 2: Classification and Measurement of Share Based Payment Transactions - Amendments to IFRS 2	1 January 2018
• IFRS 16: Leases	1 January 2019

The Group has carried out an impact assessment to determine the impact of adopting IFRS 15. Based on this assessment, management has concluded that there will be no material impact on revenue from adopting this standard.

The Group is currently assessing whether the other standards above will have a material impact on the financial statements for the year ended 31 January 2018.

36 Events after the reporting period

On 20 March 2017, the Group commenced a consultation process with members of our defined benefit scheme affected by proposed changes to the scheme, which has now ended. See further details in note 24. These changes, if implemented, will be taken into account in the 2018 financial year.

On 25 April 2017, Automobile Association Travel Services Limited, a subsidiary of the Group, acquired the trade and assets of Motoriety UK Limited. From this date, Motoriety UK Limited is no longer a joint venture of the group.

Company balance sheet as at 31 January

	Notes	2017 £m	2016 £m
Non-current assets			
Investment in subsidiaries	**2**	**1,661**	1,661
Current assets			
Trade and other receivables	**3**	**129**	129
Total assets		**1,790**	1,790
Current liabilities			
Trade and other payables	**4**	**(1,770)**	(1,770)
Total liabilities		**(1,770)**	(1,770)
Net assets		**20**	20
Equity			
Called up share capital	**5**	**-**	20
Retained earnings		**20**	-
Total equity attributable to equity holders of the parent		**20**	20

The profit for the financial year of the Company is £60m (2016: £60m).

As at 31 January 2017, the Company had distributable reserves of £20.1m (2016: £0.1m).

Signed for and on behalf of the Board on 7 June 2017 by:

M Clarke
Director

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

Company statement of changes in equity

	Share capital £m	Retained earnings £m	Total £m
At 1 February 2015	**20**	**-**	**20**
Dividends paid	-	(60)	(60)
Profit for the year	-	60	60
At 31 January 2016	**20**	**-**	**20**
Capital reduction	(20)	20	-
Dividends paid	-	(60)	(60)
Profit for the year	-	60	60
At 31 January 2017	**-**	**20**	**20**

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

Notes to the Company financial statements

1 Presentation of financial statements and Company accounting policies

1.1 Presentation of financial statements

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS101). The financial statements are prepared under the historical cost convention and on a going concern basis.

The Company is incorporated and domiciled in England and Wales.

No profit and loss account is presented by the Company as permitted by Section 408 of the Companies Act 2006.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 January 2017. The financial statements are prepared in Sterling and are rounded to the nearest million pounds (£m).

1.2 Basis of preparation

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- IAS 1 paragraph 10(d) (statement of cash flows),
- IAS 1 paragraph 16 (statement of compliance with all IFRS),
- IAS 1 paragraph 38A (requirement for minimum of two primary statements, including cash flow statements),
- IAS 1 paragraph 111 (cash flow statement information),
- IAS 1 paragraphs 134-136 (capital management disclosures),
- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment',
- IAS 7 'Statement of cash flows',
- IFRS 7 'Financial Instruments: Disclosures',
- IAS 8 paragraphs 30 and 31,
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

1.3 Accounting policies

a) Foreign currencies

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

Notes to the Company financial statements *(continued)*

b) Investments in subsidiaries and joint ventures

Investments in subsidiaries and joint ventures are stated at the lower of cost and net realisable value.

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

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

Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

c) Critical accounting estimates and judgements

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

Management have exercised judgement in applying the Group's accounting policies and in making critical estimates. The underlying assumptions on which these judgements are based, are reviewed on an ongoing basis and include the assumptions for future growth of cash flows to support the value-in-use calculations for the investment impairment review.

Investments

The Group tests the investment balances for impairment annually. The recoverable amounts of the investments have been determined based on value-in-use calculations which require the use of estimates. Management have prepared discounted cash flows based on the latest strategic plan.

2 Investments

	2017 **£m**	2016 £m
Investment in subsidiary at cost		
At 1 February and 31 January	**1,661**	1,661

No indicators of impairment in the value of subsidiaries have been identified.

Notes to the Company financial statements (continued)

3 Trade and other receivables

	2017 **£m**	2016 £m
Amounts owed by subsidiary undertakings	**129**	129

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

4 Trade and other payables

	2017 **£m**	2016 £m
Amounts owed to parent undertakings	**1,756**	1,756
Amounts owed to subsidiary undertakings	**14**	14
	1,770	1,770

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

5 Share capital

	2017 **£m**	2016 £m
Allotted, called up and fully paid		
20,000,002 ordinary shares of £1 each	**-**	20
20 ordinary shares of £1 each	**-**	-
	-	20

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

The Company has undertaken a capital reduction to reduce the nominal value of share capital and increase the distributable reserves.

During the year, the company paid a dividend of £3.00 per share (2016: £3.00).

6 Auditor’s remuneration

The fee for the audit of these financial statements was £10k (2015: £10k).

7 Staff costs

The Company had no employees or employee staff costs in the current or prior year.

Notes to the Company financial statements *(continued)*

8 Subsidiary undertakings

All subsidiaries are wholly owned and incorporated and registered where stated below.

The principal subsidiary undertakings of the Company at 31 January 2017 are:

Name	Country
AA Acquisition Co Limited[1, 2]	United Kingdom
AA Bond Co Limited [1,3]	Jersey
AA Corporation Limited [2]	United Kingdom
AA Financial Services Limited [2]	United Kingdom
AA Media Limited [2]	United Kingdom
AA Senior Co Limited [2]	United Kingdom
AA The Driving School Agency Limited [2]	United Kingdom
Automobile Association Developments Limited [2]	United Kingdom
Automobile Association Insurance Services Limited [2]	United Kingdom
Drivetech (UK) Limited [2]	United Kingdom
Intelligent Data Systems (UK) Limited [2]	United Kingdom

The other subsidiary undertakings of the Company at 31 January 2017 are:

Name	Country
A.A. Pensions Trustees Limited [2]	United Kingdom
AA Assistance Limited [2]	United Kingdom
AA Brand Management Limited [2]	United Kingdom
AA Ireland Pension Trustees DAC [4]	Ireland
AA Pension Funding GP Limited [5]	United Kingdom
AA Pension Funding LP [5]	United Kingdom
AA Road Services Limited [2]	United Kingdom
AA Underwriting Limited [2]	United Kingdom
Automobile Association Holdings Limited [2]	United Kingdom
Automobile Association Insurance Services Holdings Limited [2]	United Kingdom
Automobile Association Protection and Investment Planning Limited [2]	United Kingdom
Automobile Association Services Limited [2]	United Kingdom
Automobile Association Travel Services Limited [2]	United Kingdom
Automobile Association Underwriting Services Limited [2]	United Kingdom
Breakdown Assistance Services Limited [6]	United Kingdom
Breakdown Hero Limited [6]	
Drakefield Group Limited [2]	United Kingdom
Drakefield Holdings Limited [2]	United Kingdom
Drakefield Insurance Services Limited [2]	United Kingdom
Drakefield Services Limited [2]	United Kingdom
Nationwide 4 X 4 Ltd [2]	United Kingdom
Peak Performance Management Limited [2]	United Kingdom
Personal Insurance Mortgages and Savings Limited [2]	United Kingdom
The Automobile Association Limited [3]	Jersey

[1] Directly owned by AA Intermediate Co Limited, all other subsidiaries are indirectly held.
[2] Company registered office: Fanum House, Basing View, Basingstoke, Hampshire, RG21 4EA, England.
[3] Company registered office: 22 Greenville Street, St Helier, Jersey, JE4 8PX.
[4] Company registered office: 61a South William Street, Dublin 2, Ireland.
[5] Company registered office: 50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, Scotland.
[6] Company registered office: 90 Long Acre, London, WC2E 9RA.