28 March 2017

AA plc results for the year ended 31 January 2017

- **Results in line with expectations; strong operational cash flow; dividend progression**
- **Turnaround in Roadside Assistance - Membership growth and technology transforming customer experience**
- **AA's potential as the UK's leading Membership services organisation is now being realised**

	2017	2016	
Trading Revenue[1] (£m)	940	925	+1.6%
Trading EBITDA[2] (£m)	403	402	+0.2%
Trading EBITDA margin[3] (%)	42.9	43.5	-60bps
Operating profit[4] (£m)	284	297	-4.4%
Profit after tax[4] (£m)	74	(1)	+£75m
Basic EPS[4] (p)	12.2	(0.2)	+12.4p
Adjusted basic EPS[5](p)	21.3	21.8	-0.5p
Cash conversion[6] (%)	92	101	-8.9%
Dividends per share (p)	9.3	9.0	+3.3%
Net cash flow after dividends (£m)	42	(136)	+178m

Operational headlines

- Roadside revenue grew 2.5% to £742m with growth in paid personal Members (from 3,331,000 to 3,335,000) reversing the long-standing decline
  - Retention rose to 82%, despite the increase in Insurance Premium Tax (IPT)
  - New business volumes grew 14%, driven by new systems, marketing initiatives, advertising and the improved Membership proposition
  - Average income per Member grew 1.3%, a result of improved ancillary sales as price increases were deliberately contained at a time when our Members were affected by the increase in IPT
- Digital transformation is revolutionising the customer experience, particularly via our online sales channel and the app, which is now used in 22% of breakdowns and has been downloaded by more than one million AA Members
- The successful trial of our connected car technology has proven our ability to pre-empt up to one third of breakdowns and has led to the development of our new product, Car Genie, to be launched in the next few months
- Productivity improvements in operations delivered higher service levels and helped partly offset the costs of the 5% increase in breakdowns which affected margins, but underpins future retention
- The 115,000 motor policies underwritten in-house also supported our insurance broker where motor policies have grown for the first time since 2008
- We have so far delivered £20m of the target of at least £40m annualised savings off the 2015 cost base from the 2019 financial year

Strategic headlines

- Of the £130m net proceeds from the sale of the Irish business, £106m were used for the partial repayment of debt
- The refinancing in December reduced the average cost of debt from 4.97% to 4.63%, saving £10m of the annual cost of borrowing. It also reduced the amount of debt due within 30 months of 31 January 2017 from £1,179m to £578m
- The IAS 19 valuation of the Group's pension schemes was £395m at 31 January, significantly below the July 2016 level of £622m. We have proposed changes to our UK pension arrangements which would mitigate current and future liabilities whilst preserving the benefits a defined benefit scheme for employees. We expect the Triennial Review of the UK schemes to conclude by the end of June 2017.

Outlook

- 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 connected car
- Following the final tranche of transformation capital investment, a greater proportion of free cash flow will be available for the creation of shareholder value, including the repayment of debt
- A strengthened and modernised AA will be capable of realising the opportunities in our markets as we build on our brand, technologies and leading position to be the UK's pre-eminent Membership services organisation

Bob Mackenzie, Executive Chairman, commented:

"The transformation is delivering growth in our Roadside Assistance Membership base and of motor insurance policies, reversing long-term historic declines. It has given us a firm platform for sustainable growth.

"We have delivered results in line with expectations, mitigating the increases in IPT and call outs, and paid a progressive dividend. In addition, the refinancing reduced the cash cost of debt by £10m per annum, bringing the annualised total reduction since the IPO to more than £75m.

"We are realising the AA's potential. We are now capable of building on our technologies, brand and positioning in our markets to take advantage of the abundant opportunities that arise from our ability to fulfil a wider set of consumer and business needs. We are more than ever convinced of the potential of the AA as we position it as the UK's pre-eminent Membership services organisation."

Notes

1. Trading Revenue is revenue excluding the Ireland and Glass businesses and exceptional revenue items
2. Trading EBITDA: Earnings before interest, tax, depreciation and amortisation excluding exceptional items, items not allocated to a business segment and the Ireland discontinued business
3. Trading EBITDA margin: Trading EBITDA divided by Trading Revenue
4. Excluding discontinued operations
5. Adjusted basic EPS: Earnings per share from continuing operations adjusted for a number of one-offs, of which the largest are exceptional operating items, items not allocated to a segment and exceptional finance costs
6. Cash conversion: Net cash inflows from continuing operating activities before tax and exceptional items divided by Trading EBITDA
7. The performance measures presented above represent the key measures that management use to evaluate business performance and provide the basis that will demonstrate the achievement of our strategic objectives

Enquiries

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Presentation

A presentation by Bob Mackenzie, Executive Chairman, and Martin Clarke, CFO, will be held for analysts, investors and bond holders at 09:00 today and will be available on the AA's website at www.theaa.com

Dial-in to the presentation: Webcast audio dial in: + 44 20 3059 8125, Password: The AA

Replay details:

From the UK:	0121 260 4861
From the US:	+1 844 2308 058
From all other locations:	+44 121 260 4861
Password for all	5539809 #

Link to the webcast: http://www.investis-live.com/aa/58becc074e70e30b00127d4d/f023nm

Results in line with expectations, reflecting a strong performance in Roadside Assistance

Overall, Trading Revenue increased 1.6% to £940m 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 AA Group, as Roadside represents 79% of Group Trading EBITDA. Roadside Assistance Trading Revenue grew 2.5% and Trading EBITDA 1.1%, against the background of major transformation, the increased burden of IPT and increased breakdown incidents. This strong performance reflects not just the AA'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 rose by 0.2% to £403m 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 margin was slightly lower than last year at 42.9% (2016: 43.5%).

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.

Finance costs at £185m (2016: £289m) fell by £104m of which £62m was related to penalty costs incurred in the prior year's refinancing and £31m was due to lower interest on external borrowings following this exercise. The tax charge for the period was £26m (effective tax rate of 22%) with a current tax charge of £20m and deferred tax impact of £6m.

Profit after tax for the period from continuing operations was £74m compared with a £1m loss in the previous period. Basic earnings per share from continuing operations were 12.2p compared with a loss per share in the previous period of 0.2p.

Adjusting for exceptional items and other items (see note 9), adjusted profit after tax from continuing operations was £130m, in line with the prior year (2016: £130m) and adjusted earnings per share were 21.3p (2016: 21.8p), down marginally on the prior year as a result of an increased number of ordinary shares in issue.

Operational cash flow was strong and cash conversion from continuing operations before tax and exceptional items was 92%. Net cash flow was £42m after dividends (2016: outflow of £136m). This was achieved despite the additional capital expenditure relating to the transformation.

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 expected in the 2018 financial year, a greater proportion of free cash flow will be available for the creation of shareholder value, including the repayment of debt.

We continually review the impact of IPT and other regulatory change on our Membership base. If IPT is increased to the level of VAT, the AA will lobby for equivalent reliefs. 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.

Strategy update

The three-year programme to transform the AA into the UK's pre-eminent Membership services organisation began at the 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 Underwriting 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 IPO to over £75m per annum.

In the 2018 financial year, we expect to realise the transformation of the AA 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 in-house Underwriter and Financial Services partnership, fulfil a wider set of consumer and business needs.

The AA'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 shareholders, 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.

Pensions

As at 31 January 2017, the net liabilities of the Group's defined benefit pension schemes under IAS 19 were £395m (2016: £296m). This increase on last year is principally due to the recent volatility of corporate bond yields, which we are required to use as the discount rate for these liabilities. The deficit is however a reduction from the £622m reported at 31 July 2016, a result of an increase in corporate bond yields and changes to actuarial assumptions.

This includes the UK scheme for which the IAS 19 deficit valuation as at 31 January 2017 was £325m (2016: £238m). The triennial review valuation for this scheme is being carried out as at 31 March 2016. Preliminary indications suggest the reduction in long term gilt yields since 2013 will cause the deficit to increase from £202m as at 31 March 2013.

In light of the anticipated increase in the cost of the UK pension scheme we have undertaken a review of the options for mitigating current and future liabilities, as previously stated. We are proposing to retain a defined benefit arrangement allowing all members of the current scheme to accrue future service benefits in a single modified Career Average Revalued Earnings defined benefit section (CARE) of the scheme. This will involve transferring employees from the final salary section of our scheme into CARE.

On the 20 March 2017, we commenced a consultation process with members of our defined benefit schemes affected by the proposed changes and we have engaged with the AA's recognised union, the IDU. The proposed scheme changes are designed to:

- Mitigate any potential increase in pension costs to the business
- Reduce our exposure to pension risks
- Remain competitive within our industry
- Create a more consistent pension offering across our employees

These changes, if implemented, will be taken into account in agreeing the deficit reduction plan with the pension trustees. The deficit reduction plan is expected to be finalised before the end of June 2017.

Dividend

In view of the AA's highly cash generative business model, our confidence in the transformation plans and the interest cost savings facilitated by the refinancing, the Board is recommending the payment of total dividends of 9.3 pence per share in respect of the 2017 financial year. This includes the interim dividend of 3.6 pence per share which was paid on 28 October 2016.

The payment of the final dividend of 5.7 pence per share, subject to approval at the AGM on 8 June, will be paid on 13 June to shareholders on the register on 12 May with the ex-dividend date of 11 May.

It remains our intention to pursue a progressive dividend policy.

Business performance review

Roadside Assistance

- Roadside Assistance represents 79% of both the Group's Trading Revenue and Trading EBITDA excluding head office costs.
- Roadside Assistance performance is driven by our highly valued personal Membership 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 includes additional services such as vehicle inspections, AA Cars, AA Tyres, connected car and publishing. Collectively these businesses generate approximately £5m of Trading EBITDA.

	2017	**2016**
Trading Revenue (£m)	**742**	724
Trading EBITDA (£m)	**365**	361
Trading EBITDA margin (%)	**49.2**	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 Trading Revenue grew 2.5% to £742m, 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 £4m to £365m 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 49.2%.

Insurance Services

- Insurance Services, which includes Financial Services, contributed 14% of the Group's Trading Revenue and 17% of the Group's Trading EBITDA excluding head office costs.
- We arranged 1.9m policies last year for motor and home insurance and Home Services providing emergency boiler and heating system repairs.
- We launched our in-house Insurance Underwriter in January 2016 to participate on the AA's motor insurance panel and, from August, on the AA's home insurance panel. The Underwriter enables us to use our valuable data to price insurance more effectively.
- Our financial services partnership with the Bank of Ireland builds on a long history of AA financial services.

	2017	**2016**
Trading 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
Financial Services products ('000s)	100	33

1 Excludes 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 our in-house Underwriter, which performed ahead of expectations. In its first year of business, it underwrote 115,000 motor insurance policies.

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 the Group's Trading Revenue and 4% of the Group's 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.

	2017	2016
Trading Revenue (£m)	67	68
Trading EBITDA (£m)	20	19
Trading EBITDA margin (%)	29.9	27.9
Number of driving instructors	2,607	2,574

Driving Services Trading Revenue declined by £1m to £67m 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.

Financial review

The year ending 31 January 2017 was the second full year of the transformation of the AA and our results reflect the significant investment we are making in the business and the early stage turnaround in underlying performance.

Revenue

	2017 £m	2016 £m
Roadside Assistance	**742**	724
Insurance Services	**131**	131
Driving Services	**67**	68
Insurance Underwriting	**-**	2
Trading Revenue	**940**	925
Glass business disposed of	**-**	10
Exceptional revenue provision	**(7)**	-
Group Revenue	**933**	935

Trading Revenue grew 1.6% to £940m, compared with £925m last year. The increase in revenue reflects a robust performance by Roadside Assistance, which grew revenue by £18m or 2.5% through increased average income per personal Member and higher business-to-business revenue.

Revenue for the Group's other segments was broadly flat on the prior year. In Insurance Services, lower revenue from Home Services and motor insurance was offset by increased Financial Services revenue as our partnership with the Bank of Ireland continues to build positive momentum. Driving Services' revenue marginally declined due to a fall in the number of speed awareness courses delivered in the year through our DriveTech business. Insurance Underwriting revenue has declined as the income from the launch of our new in-house Insurance Underwriter was offset by an associated change of accounting treatment. The broker commission received on these policies, along with costs incurred, will now be recognised over the life of the policy along with the underwriter premium.

Group revenue also included £7m relating to a provision for duplicate breakdown cover. In addition, £3m was charged to exceptional finance costs bringing the total exceptional charge to £10m. See note 17 for further information.

Trading EBITDA

	2017 £m	2016 £m
Roadside Assistance	**365**	361
Insurance Services	**76**	78
Driving Services	**20**	19
Insurance Underwriting	**(1)**	-
Head Office costs	**(57)**	(56)
Group Trading EBITDA	**403**	402
Trading EBITDA margin (%)	**42.9**	43.5

Trading EBITDA was £403m, slightly ahead of the prior year result. Growth in Roadside Assistance was partly offset by a 5% increase in breakdown incidents in the year with a net £6m rise in associated costs. Insurance Services Trading EBITDA was affected by higher marketing spend on insurance aggregators and a lower contribution from Home Services as we focus on future profitability in preference to volume. The rise in Head Office costs reflects the impact of increased IT maintenance costs offset by efficiency savings.

We achieved cost savings of £12m in the period, bringing the cumulative savings to £20m. The Trading EBITDA margin reduced from 43.5% to 42.9%.

Operating Profit

	2017 £m	2016 £m
Group Trading EBITDA	**403**	402
Items not allocated to a segment	**(20)**	(18)
Amortisation and depreciation	**(67)**	(51)
Exceptional operating items including impairment	**(32)**	(36)
Operating profit from continuing operations	**284**	297

The £13m fall in operating profit is driven primarily by the increase in amortisation and depreciation.

The £2m increase in items not allocated to a segment is driven by a £7m increase in the share-based payments expense due to the first full year charge for grants made in the prior year under the long term incentive schemes for management. This was partially offset by a £5m decrease in the difference between the cash contributions to the pension scheme (set as part of the 2013 triennial valuation) and the calculated annual service cost (as per IAS 19).

Depreciation and amortisation increased by £16m to £67m reflecting increased IT transformation capital expenditure and the roll out of and use of the first phases of the IT transformation programme.

Exceptional operating items, including impairment were £32m, largely comprising £14m of costs associated with the business restructuring and a £7m charge for duplicate breakdown cover.

Finance Costs

	2017 £m	2016 £m
Interest on external borrowings	**147**	159
Finance charges payable under finance leases	**8**	7
Total ongoing cash finance costs	**155**	166
Ongoing amortisation of debt issue fees	**5**	4
Net finance expense on defined benefit pension schemes	**10**	12
Total ongoing non-cash finance costs	**15**	16
Double-running interest on external borrowings	**-**	19
Debt repayment premium and penalties	**2**	62
Transfer from cashflow hedge reserve for extinguishment of cashflow hedge	**6**	8
Debt issue fees immediately written off following repayment of borrowings	**4**	18
Duplicate breakdown cover – interest on refunds	**3**	-
Exceptional finance costs	**15**	107
Total finance costs	**185**	289

Total finance costs fell £104m, of which £60m was due to the lower debt repayment premium and penalties and £31m due to lower interest on external borrowings.

The repayment of £106m of our senior term facility in August 2016 and the refinancing undertaken in December 2016 will reduce our annual interest on external borrowings by approximately £5m and £10m respectively.

Taxation

The tax charge for the year of £26m is made up of a current tax charge of £20m and a deferred tax charge of £6m. The deferred tax charge includes £2m due to the reduction in future corporation tax rates substantively enacted during the year. The effective tax rate was 22.0% (2016: 23.5%).

Profit and Earnings per Share

Profit after tax from continuing operations increased to £74m (2016: £1m loss) driven by the reduction in finance costs incurred in the year. As a result, basic earnings per share rose by 12.4p, from a loss of 0.2p to 12.2p.

Profit after tax from discontinued operations related to the Irish business and was £80m which included £7m operating profit, a tax charge of £4m and a profit of £77m from the disposal.

Adjusted basic earnings per share were 21.3p (2016: 21.8p) with flat adjusted profit after tax marginally offset by an increased number of ordinary shares.

Cash Flow and Liquidity

	2017 £m	2016 £m
Trading EBITDA	**403**	402
Working capital	**(8)**	12
Other items	**(24)**	(8)
Cash flow from continuing operating activities before exceptional items and taxation	**371**	406
Discontinued operations	**10**	14
Exceptional items and tax paid	**(36)**	(39)
Acquisitions and disposals	**99**	(8)
Cash flow from other investing activities	**(52)**	(63)
Cash inflow from issue of share capital	**-**	199
Debt refinancing activities	**(102)**	(382)
Interest on borrowings	**(143)**	(178)
Cash flow from other financing activities	**(105)**	(85)
Net increase in cash and cash equivalents	**42**	(136)
Cash conversion (%)	**92**	101

The unfavourable movement in working capital of £8m resulted in cash flow from continuing operating activities before exceptional items and tax decreasing from £406m to £371m. Other items included the pension charge not allocated to a segment and working capital exceptional charges. Cash conversion remained healthy at 92% (2016: 101%).

Despite the continuing elevated levels of IT capital expenditure, the AA generated a net cash inflow for the year of £42m (2016: £136m cash outflow). This was a result of receipt of the proceeds from the disposal of our Irish business in August 2016 combined with lower cash outflows associated with debt refinancing activities and interest on borrowings. The cash balance has therefore increased to £211m (2016: £166m), held in AAA money market funds for easy access and high liquidity. The £150m working capital facility remains undrawn other than the £10m ancillary facility used to issue letters of credit to certain corporate insurance providers. We do not currently envisage needing to draw on the working capital facility for the foreseeable future.

We are required to hold segregated funds as “restricted cash” in order to satisfy regulatory requirements governing our regulated businesses, including the Insurance Underwriting business. These restricted cash balances have decreased to £23m (2016: £34m) principally due to the sale of the Irish business.

Capital Management

The Group considers its capital to be a combination of net debt and equity. As at 31 January 2017, net debt was £2.7bn while the equity market capitalisation was £1.5bn.

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

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

The capital structure at 31 January 2017 is summarised 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			**(211)**
Total net debt			**2,704**
Equity (Valued at close on 31 January 2017)			**1,486**
Total capital			**4,190**

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.

Excluding the remaining Class A1 and Class A4 notes, which are nearing maturity, we do not envisage making 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 residue at or before maturity.

Net Debt and Dividends

Year ended 31 January	2017 £m	2016 £m
Senior Term Facility	**348**	454
Class A notes	**1,930**	1,725
Less: AA Intermediate Co Limited group 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 WBS debt[2]	**2,779**	2,881
Less: AA plc Group cash and cash equivalents[3]	**(75)**	(72)
Total net debt	**2,704**	2,809
AA plc Trading EBITDA	**403**	402
AA Intermediate Trading EBITDA[4]	**414**	417
Net debt ratio[5]	**6.7x**	7.0x
Class B2 leverage ratio[6]	**6.7x**	6.9x
Senior leverage ratio[7]	**5.2x**	5.0x
Class A free cash flow: debt service[8]	**3.3x**	3.6x
Class B free cash flow: debt service[9]	**2.3x**	2.4x

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

2 WBS debt represents the borrowings and cash balances within the WBS structure headed by AA Intermediate Co Limited. This includes the principal amounts of the Senior Term Facility, Class A notes, Class B notes and finance leases less AA Intermediate Co Limited group cash and cash equivalents.

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

4 AA Intermediate Co Limited group Trading EBITDA including discontinued operations as required by the debt documents.

5 Ratio of Total Net Debt to AA plc Trading EBITDA for the last 12 months.

6 Ratio of Net WBS debt[2] to AA Intermediate Trading EBITDA for the last 12 months.

7 Ratio of Net Senior Secured Debt[1] to AA Intermediate Trading EBITDA for the last 12 months.

8 Ratio of last 12 months free cash flow to proforma debt service relating to the Senior Term Facility and Class A notes.

9 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. The Class B2 notes require us to maintain the Class B2 free cash flow to debt service ratio in excess of 1x.

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

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

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

Key Cash Release Metrics	2017	2016
Net senior leverage (AA Intermediate Co Limited group) [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

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

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

2 Cumulative free cash flow, since 1 February 2013 reduced by dividends paid by the AA Intermediate Co Limited group 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 the dividends paid by the AA Intermediate Co Limited group.

Pensions

As at 31 January 2017, the Group's defined benefit pension schemes net liabilities under IAS 19 were £395m, an increase of £99m since 31 January 2016. This increase is largely due to the reduction in the corporate bond yields, which we are required to use as the discount rate for calculating these liabilities. The deficit is, however, a reduction from the £622m reported at 31 July 2016, a result of an increase in corporate bond yields since that date as well as changes to actuarial assumptions.

A triennial valuation of the UK pension scheme was carried out at 31 March 2016 and whilst the final results are not yet confirmed, the assumptions used for the year end IAS 19 pension valuation have been updated to reflect the assumptions adopted by the Trustees during the triennial valuation. In the meantime, the asset-backed funding scheme deficit reduction contributions will continue to be paid. These contributions were £13m in the 2017 financial year and will increase annually by the rate of inflation. During the 2017 financial year there was an additional one-off contribution of £6m, bringing total deficit reduction contributions for the year for the UK pension scheme to £19m.

Directors' responsibility statement

We confirm that to the best of our knowledge:

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

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

Signed for and on behalf of the Board on 27 March 2017 by

Bob Mackenzie Executive Chairman	Martin Clarke Chief Financial Officer

Consolidated income statement

	Note	for the year ended 31 January **2017** **£m**	 2016 £m
Continuing operations			
Trading Revenue	2	**940**	925
Revenue from business disposed of	2	**-**	10
Exceptional revenue provision	2	**(7)**	-
Group Revenue	2	**933**	935
Cost of sales		**(341)**	(337)
Gross profit		**592**	598
Administrative & marketing expenses		**(309)**	(302)
Share of profits of joint venture and associates, net of tax		**1**	1
Operating profit		**284**	297
Trading EBITDA	2	**403**	402
Items not allocated to a segment	4	**(20)**	(18)
Amortisation and depreciation	10,11	**(67)**	(51)
Impairment of investment in joint venture		**(1)**	-
Exceptional operating items	5	**(31)**	(36)
Operating profit		**284**	297
Finance costs	6	**(185)**	(289)
Finance income	7	**1**	1
Profit before tax		**100**	9
Tax expense	8	**(26)**	(10)
Profit / (loss) for the year from continuing operations		**74**	(1)
Discontinued operations			
Profit for the year from discontinued operations	3	**80**	7
Profit for the year		**154**	6

Earnings per share from profit / (loss) for the year

	Note	**2017** **pence**	2016 pence
Basic from total operations	9	**25.3**	1.0
Basic from continuing operations	9	**12.2**	(0.2)
Basic from discontinued operations	9	**13.1**	1.2
Diluted from total operations	9	**25.3**	1.0
Diluted from continuing operations	9	**12.2**	(0.2)
Diluted from discontinued operations	9	**13.1**	1.2

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

Consolidated statement of comprehensive income

	for the year ended 31 January	
	2017 **£m**	2016 £m
Profit for the year	**154**	6
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	**(1)**	(2)
	14	9
Other comprehensive income on items that will not be reclassified to profit and loss in subsequent years		
Remeasurement on (losses) / gains on defined benefit schemes	**(99)**	149
Tax effect	**17**	(26)
	(82)	123
Total other comprehensive income	**(68)**	132
Total comprehensive income for the year	**86**	138

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	10	**1,283**	1,298
Property, plant and equipment	11	**131**	122
Investments in joint ventures and associates		**10**	10
Deferred tax assets		**62**	52
		1,486	1,482
Current assets			
Inventories		**6**	5
Trade and other receivables	12	**195**	172
Cash and cash equivalents	13	**211**	166
		412	343
Total assets		**1,898**	1,825
Current liabilities			
Trade and other payables	14	**(520)**	(518)
Current tax payable		**(11)**	(7)
Provisions	17	**(19)**	(8)
		(550)	(533)
Non-current liabilities			
Borrowings and loans	15	**(2,819)**	(2,920)
Finance lease obligations		**(20)**	(21)
Defined benefit pension scheme liabilities	18	**(395)**	(296)
Provisions	17	**(11)**	(7)
Insurance technical provisions		**(16)**	(4)
		(3,261)	(3,248)
Total liabilities		**(3,811)**	(3,781)
Net liabilities		**(1,913)**	(1,956)
Equity			
Share capital		**1**	1
Share premium		**403**	399
Own shares		**(26)**	(22)
Currency translation reserve		**1**	(1)
Cashflow hedge reserve		**2**	(10)
Retained earnings		**(2,294)**	(2,323)
Total equity attributable to equity holders of the parent		**(1,913)**	(1,956)

Signed for and on behalf of the Board on 27 March 2017 by

Bob Mackenzie
Executive Chairman

Martin Clarke
Chief Financial Officer

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

Consolidated statement of changes in equity

	Attributable to the equity holders of the parent						
	Share capital £m	Share premium £m	Own shares £m	Currency translation reserve £m	Cashflow hedge reserve £m	Retained earnings £m	Total £m
At 1 February 2015	1	200	-	(2)	(18)	(2,436)	(2,255)
Profit for the year	-	-	-	-	-	6	6
Other comprehensive income	-	-	-	1	8	123	132
Total comprehensive income	-	-	-	1	8	129	138
Dividends	-	-	-	-	-	(21)	(21)
Issue of share capital	-	199	-	-	-	-	199
Purchase of own shares	-	-	(22)	-	-	-	(22)
Share-based payments	-	-	-	-	-	5	5
At 31 January 2016	**1**	**399**	**(22)**	**(1)**	**(10)**	**(2,323)**	**(1,956)**
Profit for the year	-	-	-	-	-	154	154
Other comprehensive income	-	-	-	2	12	(82)	(68)
Total comprehensive income	-	-	-	2	12	72	86
Dividends	-	-	-	-	-	(55)	(55)
Issue of share capital	-	4	-	-	-	-	4
Purchase of own shares	-	-	(4)	-	-	-	(4)
Share-based payments	-	-	-	-	-	12	12
At 31 January 2017	**1**	**403**	**(26)**	**1**	**2**	**(2,294)**	**(1,913)**

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		**184**	17
Amortisation and depreciation	10,11	**68**	54
Net finance costs	6,7	**184**	288
Other adjustments to profit before tax		**(62)**	12
Working capital:			
(Increase) / decrease in trade and other receivables		**(45)**	13
Increase in trade and other payables		**23**	6
Increase / (decrease) in provisions		**24**	(6)
Difference between pension charge and cash contributions		**(10)**	(1)
Total working capital adjustments		**(8)**	12
Net cash flows from operating activities before tax		**366**	383
Tax paid		**(21)**	(2)
Net cash flows from operating activities		**345**	381
Investing activities			
Capital expenditure		**(71)**	(75)
Proceeds from sale of fixed assets		**18**	11
Acquisitions and disposals, net of cash acquired or disposed of	3	**99**	(8)
Interest received		**1**	1
Net cash flows from investing activities		**47**	(71)
Financing activities			
Proceeds from borrowings		**700**	735
Issue costs on borrowings		**(6)**	(16)
Debt repayment premium and penalties		**(30)**	(62)
Repayment of borrowings		**(766)**	(1,039)
Share capital issued		**-**	199
Refinancing transactions		**(102)**	(183)
Purchase of own shares		**-**	(22)
Interest paid on borrowings		**(143)**	(178)
Payment of finance lease capital		**(43)**	(34)
Payment of finance lease interest		**(7)**	(8)
Dividends paid		**(55)**	(21)
Net cash flows from financing activities		**(350)**	(446)
Net increase / (decrease) in cash and cash equivalents		**42**	(136)
Net foreign exchange differences		**3**	-
Cash and cash equivalents at 1 February		**166**	302
Cash and cash equivalents at 31 January	13	**211**	166

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: £37m). 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), share issue costs of £nil (2016: £1m), 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 £12m) 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 (2015: £3m), impairment of investment in joint ventures of £1m (2016: £nil) and loss on disposal of Autowindshields of £nil (2016: £5m).

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

The financial information set out in this report does not constitute the Company's statutory accounts for the years ended 31 January 2017 or 2016, but is derived from those accounts. The statutory accounts for the year ended 31 January 2016 have been delivered to Companies House and those for 2017 will be delivered in due course. The Auditor has reported on those accounts: its Reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying its Report and did not contain a statement under s498(2) or (3) of the Companies Act 2006.

The financial information included in this preliminary announcement has been prepared on the same basis as set out in the 2017 Annual Report and Accounts.

2 Segmental information

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.
- *Insurance Underwriting:* This segment consists of the insurance underwriting and reinsurance activities of the AA. Any adjustments arising on consolidation of the Group's insurance underwriting activities such as the deferring of revenue relating to the broker are included in this segment.
- *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 measures 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 on-going segment performance and include transactions which are one–off in nature (see note 4).

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.

2 Segmental information *(continued)*

	2017 £m	2016 £m
Revenue		
Roadside Assistance	**742**	724
Insurance Services	**131**	131
Driving Services	**67**	68
Insurance Underwriting	**-**	2
Trading Revenue	**940**	925
Revenue from business disposed of	**-**	10
Exceptional revenue provision (see note 17)	**(7)**	-
Group Revenue	**933**	935
Trading EBITDA		
Roadside Assistance	**365**	361
Insurance Services	**76**	78
Driving Services	**20**	19
Insurance Underwriting	**(1)**	-
Head Office costs	**(57)**	(56)
Trading EBITDA	**403**	402
Items not allocated to a segment	**(20)**	(18)
Amortisation and depreciation	**(67)**	(51)
Impairment of investment in joint venture	**(1)**	-
Exceptional operating items	**(31)**	(36)
Operating profit	**284**	297
Net finance costs	**(184)**	(288)
Profit before tax from continuing operations	**100**	9

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.

3 Discontinued operations

On 11 August 2016 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 AA plc and will continue to be the responsibility of the Group.

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 Items not allocated to a segment

	2017 £m	2016 £m
Share-based payments	**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

5 Exceptional operating items

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 17).

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: £4m), and £3m mainly relating to non-recurring costs for cost restructuring activities (2016: £2m).

6 Finance costs

	2017 £m	2016 £m
Interest on external borrowings	**(147)**	(159)
Finance charges payable under finance leases	**(8)**	(7)
Total ongoing cash finance costs	**(155)**	(166)
Ongoing amortisation of debt issue fees	**(5)**	(4)
Net finance expense on defined benefit pension schemes	**(10)**	(12)
Total ongoing non-cash finance costs	**(15)**	(16)
Double-running interest on external borrowings	**-**	(19)
Debt repayment premium and penalties	**(2)**	(62)
Transfer from cashflow hedge reserve for extinguishment of cashflow hedge	**(6)**	(8)
Debt issue fees immediately written off following repayment of borrowings (see note 16)	**(4)**	(18)
Duplicate breakdown cover – interest on refunds (see note 17)	**(3)**	-
Exceptional finance costs	**(15)**	(107)
Total finance costs	**(185)**	(289)

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 16).

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 and PIK notes of £175m (see note 16). As a result, the Group incurred early repayment penalties of £58m for the Class B notes and £4m for the PIK notes.

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 16). 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 Tax

The major components of the income tax expense are:

	2017 £m	2016 £m
Consolidated income statement		
Current income tax		
Current income tax charge	**21**	9
Adjustments in respect of previous years	**(1)**	-
	20	9
Deferred tax		
Effect of tax rate change on opening balances	**2**	7
Origination and reversal of temporary differences	**2**	-
Adjustments in respect of prior years	**2**	(6)
	6	1
Tax expense in the income statement at an effective rate of 22.0% (2016: 23.5%)	**26**	10

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 tax rate is as reported in last year's financial statements.

9 Earnings per share

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

	2017	2016
Basic earnings per share:		
Profit after tax from total operations (£m)	**154**	6
Weighted average number of shares outstanding (millions)	**609**	596
Basic earnings per share from total operations (pence)	**25.3**	1.0

	2017	2016
Basic earnings per share:		
Profit / (loss) after tax from continuing operations (£m)	**74**	(1)
Weighted average number of shares outstanding (millions)	**609**	596
Basic earnings per share from continuing operations (pence)	**12.2**	(0.2)

	2017	2016
Basic earnings per share:		
Profit after tax from discontinued operations (£m)	**80**	7
Weighted average number of shares outstanding (millions)	**609**	596
Basic earnings per share from discontinued operations (pence)	**13.1**	1.2

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

Under the Group's all employee share incentive plan, shares are purchased monthly at market value and are therefore not dilutive. In addition, matching shares are issued monthly at market value and are therefore also not dilutive.

The Group has another class of potential dilutive ordinary shares relating to the MVP shares. However, as at 31 January 2017, based on average market value of ordinary shares for the year, these were not dilutive.

There are no further classes of share that are dilutive as at 31 January 2017.

	2017	2016
Weighted average number of ordinary shares in issue (millions)	**609**	596
Potentially dilutive shares (millions)	**-**	-
Weighted average number of diluted ordinary shares (millions)	**609**	596
Diluted earnings per share from total operations (pence)	**25.3**	1.0
Diluted earnings per share from continuing operations (pence)	**12.2**	(0.2)
Diluted earnings per share from discontinued operations (pence)	**13.1**	1.2

9 Earnings per share *(continued)*

Adjusted earnings per share adjusts profit after tax for items that are either discontinued operations, one-off in nature or relate to transactions that do not form part of the ongoing performance of the group.

	2017	2016
Profit after tax from continuing operations as reported (£m)	**74**	(1)
Adjusted for:		
Exceptional items (£m)	**31**	36
Impairment of investment in joint venture (£m)	**1**	-
Items not allocated to a segment (£m)	**20**	18
Exceptional finance costs (see note 6) (£m)	**15**	107
Tax expense (£m)	**26**	10
Adjusted profit before tax (£m)	**167**	170
Tax at the effective rate of 22.0% (2016: 23.5%) (£m)	**(37)**	(40)
Adjusted profit after tax (£m)	**130**	130
Weighted average number of shares outstanding (millions)	**609**	596
Adjusted basic earnings per share (pence)	**21.3**	21.8
Weighted average number of diluted ordinary shares (millions)	**609**	596
Adjusted diluted earnings per share (pence)	**21.3**	21.8

10 Goodwill and other intangible assets

	Goodwill £m	Software £m	Total £m
Cost			
At 1 February 2015	1,199	129	1,328
Additions	-	64	64
Disposals	-	(2)	(2)
At 31 January 2016	**1,199**	**191**	**1,390**
Additions	-	56	56
Disposals	-	(30)	(30)
Disposed with sale of subsidiary	(26)	(14)	(40)
At 31 January 2017	**1,173**	**203**	**1,376**
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	**1,173**	**110**	**1,283**
At 31 January 2016	1,199	99	1,298

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

Software additions comprise £12m (2016: £13m) in relation to internally developed assets and £44m (2016: £51m) 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.

11 Property, plant and equipment

	Freehold Land & Buildings £m	Long Leasehold Land & Buildings £m	Vehicles £m	Plant & equipment £m	Total £m
Cost					
At 1 February 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 differences	-	-	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	23	10	34
Disposals	-	-	(16)	(44)	(60)
Disposed with sale of subsidiary	-	(2)	(4)	(8)	(14)
Exchange differences	-	-	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 (2016: £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.

12 Trade and other receivables

	2017 **£m**	2016 £m
Current		
Trade receivables	**141**	146
Prepayments and accrued income	**22**	21
Reinsurers' share of insurance liabilities	**28**	1
Other receivables	**4**	4
	195	172

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

Reinsurers' share of insurance liability comprises £15m unearned reinsurance premiums and £13m reinsurance claims outstanding.

13 Cash and cash equivalents

	2017 **£m**	2016 £m
Ring-fenced cash at bank and in hand – available	**128**	74
Ring-fenced cash at bank and in hand – restricted	**8**	20
Non ring-fenced cash at bank and in hand – available	**60**	58
Non ring-fenced cash at bank and in hand – restricted	**15**	14
	211	166

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

Cash at bank and in hand includes £23m (2016: £34m) held by and on behalf of the Group's insurance businesses which are subject to contractual or regulatory restrictions. The reduction in ring-fenced restricted cash since 31 January 2016 relates to the sale of the Irish business.

14 Trade and other payables

	2017 £m	2016 £m
Trade payables	**97**	110
Other taxes and social security costs	**27**	23
Accruals	**57**	67
Deferred income	**241**	248
Provision for unearned premiums in Insurance Underwriting	**18**	-
Other payables	**33**	30
Obligations under finance lease agreements	**47**	40
	520	518

Included in trade payables are amounts of £82m (2016: £86m) relating to amounts due to underwriters in respect of insurance broking activities.

15 Borrowings and loans

	2017 £m	2016 £m
Borrowings (see note 16)	**2,799**	2,893
Interest rate swap used for hedging	**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).

16 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.

16 Borrowings *(continued)*

A summary of the Group's financing transactions is 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.

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 three 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.

16 Borrowings *(continued)*

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.

17 Provisions

	2017 **£m**	2016 £m
Duplicate breakdown cover	**10**	-
Property leases	**17**	13
Restructuring	**3**	1
Other	**-**	1
	30	15

£11m of the property provision relates to non-current provisions (2016: £7m).

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.

18 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 (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 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.

18 Pensions (continued)

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)**

The increase in the deficit is due to changes in the financial assumptions, primarily a decrease in the discount rate and increase in assumed price inflation 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.

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 AA UK scheme to accrue future service benefits in a single modified CARE 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. 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.

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.

19 Events after the reporting period

On 20 March 2017, the Group commenced a consultation process with members of the UK defined benefit pension scheme affected by proposed changes to the scheme. See further details in note 18. These changes, if implemented, will be taken into account in the 2018 financial year.