17 April 2018

AA plc results for the year ended 31 January 2018

Solid performance, in line with guidance

	Year ended		
	Jan 18	**Jan 17**	**Change**
Trading Revenue (£m)[1,2]	959	940	2%
Trading EBITDA[1,3] (£m)	391	403	(3)%
Trading EBITDA[1,4] margin (%)	40.8	42.9	(5)%
Operating profit[1] (£m)	307	284	8%
Group PBT[1] (£m)	141	100	41%
Basic EPS[1] (p)	18.2	12.2	49%
Adjusted basic EPS[1,5](p)	21.8	21.3	2%
Cash conversion[1,6] (%)	94	92	2%
Total dividend per share (p)	5.0	9.3	(46)%

Fundamental financial strength remains

- Trading Revenue grew 2% to 959m. Trading EBITDA reduced 3% to £391m, in line with guidance.
- Strong operational cash flow conversion of 94%.
- Cost of borrowings reduced and maturity extended through refinancing in July 2017. S&P reaffirmed the ratings of the A and B notes as BBB- and B+ respectively.
- UK Pension Scheme triennial review brought certainty on deficit funding and mitigated ongoing service costs.
- Total dividend of 5p per share, comprising the interim of 3.6p already paid and a recommended final of 1.4p.

Good operational progress in Roadside and Insurance

- Roadside Trading Revenue grew 1% to £814m. New memberships grew 7% and retention was broadly flat, however paid membership declined 1% reflecting the discontinuation of the insurance free-to-paid channel.
- More than 1m members are registered for the AA breakdown app and it is currently used in 29% of members' breakdowns.
- Car Genie was launched in August and is now in use in 6,000 vehicles.
- B2B has extended contracts with four customers, renewed three contracts and won one.
- Insurance revenue grew 11% to £145m reflecting the growth in the in-house underwriter to £12m (FY17: £nil). This helped drive the 6% growth in broker motor policies.
- Average income per motor and home policy rose 6% as a result of continued focus on more profitable products.

Strategic review announced on 21 February 2018

- Additional investments for growth resulting in lower FY19 EBITDA guidance of £335m - £345m.
- Targeting annual Trading EBITDA growth of 5%-8% from FY19 to FY23.
- Expect to remain cash generative even in FY19. Target to generate in excess of £80m of free cash flow in FY20 and in excess of £100m per annum thereafter.
- Dividend policy was changed to reflect the operation of the WBS gating covenant and the strategic investment plans. A dividend of 2p per share per annum is proposed from FY19 until profit and cash flow enables a change in the policy.

Simon Breakwell, CEO, said:

"The AA has delivered a solid performance, in line with guidance, despite the difficult weather conditions. Trading revenue grew 2%. Roadside continues to attract new members at a good rate, with encouraging take up of our digital products, including the breakdown app and Car Genie. Insurance delivered strong growth as our in-house underwriter drove growth in motor policies. These results, together with the reaffirmation by S&P of our Class A notes' investment grade status, demonstrate the fundamental strengths of the business.

"We have made a positive start to the 2019 financial year as we begin to execute on our new strategy to put service, innovation and data at the heart of the AA with additional investments to grow Roadside and to accelerate the growth of Insurance.

"We remain confident our financial requirements are well funded and will continue to seek ways of lowering the cost of borrowings and de-lever over time."

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Conference call

A conference call in which Simon Breakwell, CEO, and Martin Clarke, CFO, will present the results and take questions will be held for analysts, investors and bond holders at 9:00 am today.

Webcast link:	http://www.investis-live.com/aa/5ab382ae64ad750f002917d1/hnre	
Audio dial-in:	+442039362999	Password: 93 36 80
Replay:	UK: 02039363001	Password: 03 01 84
	US: +1 8457098569	Password: 03 01 84
	All other locations: +442039363001	Password: 03 01 84

Notes

1. Excludes discontinued operations.
2. Trading revenue excludes exceptional revenue items.
3. Earnings before interest, tax, depreciation and amortisation excluding exceptional operating items, share-based payments and pension service charge adjustment.
4. Trading EBITDA divided by Trading revenue arising within operating segments.
5. Earnings per share excluding discontinued operations adjusted for a number of one-offs of which the largest are exceptional operating items, share based payments, pension service charge adjustment, the write-off of debt issue fees, penalties on early repayment of debt and transfer from cash flow hedge reserve.
6. Net cash inflows from continuing operating activities before tax and exceptional items divided by Trading EBITDA.

Performance and strategy

Results in line with expectations

This year's financial performance is in line with the guidance we gave at the interim results in September 2017, despite the challenging weather conditions.

Trading Revenue grew 2.0% to £959m driven principally by the strong performance of Insurance, both our Underwriter and Insurance broker, as well as Roadside. Driving Services, which is now within Roadside, was broadly flat.

Trading EBITDA was £391m, in line with our guidance. The 3.0% decline compared to last year was due to the reduction in Roadside Trading EBITDA, reflecting higher costs from third-party garaging due to workload peaks and the higher number of breakdowns attended. The 7.6% increase in Insurance Trading EBITDA reflects the improved performance of both the underwriter and the broker. Head Office costs, which have now been allocated to segments, were flat during the year. Group Trading EBITDA margin reduced from 42.9% to 40.8% as a result of the lower profitability in Roadside.

Operating profit before exceptional items decreased by 3.8% to £304m principally due to the reduction in Trading EBITDA and the increase in amortisation and depreciation reflecting the recent investment in transformation capital expenditure.

Exceptional operating items were lower at £3m income (2017: £32m cost), including £24m relating to business transformation costs and £27m impairment of goodwill offset by a £6m gain on the disposal of the Home Emergency Services consumer business, a one-off past service credit of £34m from the restructuring of the UK pension scheme, a credit of £7m for the reversal of share-based payment charges for the former Executive Chairman, and a £9m improvement in onerous property provisions.

Basic earnings per share from continuing operations rose by 6.0p, from 12.2p to 18.2p mainly as a result of the pension past service credit. Adjusted basic earnings per share increased by 0.5p from 21.3p to 21.8p.

Cash flow from continuing operating activities before exceptional items and taxation decreased from £371m to £368m. Capex included £34m of IT transformation capex, the final tranche of the investment originally set out at the IPO, and £53m of maintenance capex (including finance leases net of proceeds of sale of vehicles). Free cash flow before equity for continuing operations was an outflow of £5m (2017: inflow of £87m).

Strategy update announced 21 February 2018

Following the appointment of Simon Breakwell as CEO in September 2017, we conducted a strategic review which included a comprehensive bottom-up analysis of every aspect of our business. Our conclusion was that the AA is a phenomenal business and that we could build on our leading position in Roadside, our trusted brand and our highly-skilled and committed employees with a deeply embedded customer service ethos. Our confidence about our ability to realise the opportunities convinced us of the positive long-term outlook for the AA.

The objectives of the strategic plan are to deliver targeted investment in our people, our products, our systems and operations. We are building on the solid foundation that our investments since the IPO have created, and addressing the challenges we face.

This strategic plan will deliver front line resource to improve the efficiency, predictability and resilience of our Roadside operations as well as investment in game-changing growth drivers – Insurance and connected car. These investments, while reducing our short term profitability, are vital to our long term success. Our development in connected car – started with the launch of Car Genie in August 2017 - could take the AA from being a service helping when you break down to one which potentially predicts when you might break down in the first place, allowing scheduling of repairs and a great experience for customers.

We are confident the priorities we set out in February will transform our products and service offerings to our customers by creating a truly innovative and differentiated product proposition which will deliver long term shareholder value.

The Board

On 1 August 2017, Bob Mackenzie was removed from his role as Executive Chairman, his other roles as a director, and employee of the Group, for gross misconduct.

Simon Breakwell's appointment, initially as interim CEO, expedited the split in the roles of CEO and Chairman which was already our stated intention. John Leach became Chairman, relinquishing the role of Senior Independent Director (SID) which he had held since 13 November 2014 and which Andrew Blowers took over.

Simon, who joined the AA in September 2014 as a Non-Executive Director, stepped down from his previous Committee roles once he became an Executive Director.

Cathryn Riley was appointed a Non-Executive Director on 28 February 2018. Cathryn was previously Chair of our insurance broker, AA Insurance Services Limited (AAISL) and we will continue to benefit from her wide-ranging experience which covers insurance, customer services, IT, operations and human resources.

The appointment of Cathryn Riley has increased the size of the Board, but until additional non-executive directors are appointed, John Leach's involvement is required on several committees, including Audit which he will leave as soon as possible.

The Board roles are now as follows:

- John Leach is Chairman and Chair of the Nomination Committee and a member of the Risk, Remuneration and Audit Committees.
- Simon Breakwell is Chief Executive Officer.
- Martin Clarke continues as Chief Financial Officer.
- Andrew Blowers is the new SID and is Chair of the Risk Committee and a member of the Audit and Nomination Committees.
- Suzi Williams is Chair of the Remuneration Committee and is also on the Nomination and Risk Committees.
- Andrew Miller will retire from the Board at the AGM on 7 June 2018, but until then continues as Chair of the Audit Committee and member of the Risk and Remuneration Committees. We thank him for his contribution and support.
- Cathryn Riley is a member of the Risk Committee.

Our Company Secretary, Mark Millar, steps down today, having chosen to return to private legal practice. Martin Clarke will hold the role, however, Mark Millar will continue to support us until our new Company Secretary, Nadia Hoosen, joins us from TalkTalk in the summer.

It is important that the Board's achievements during the year are not overshadowed by the removal of Bob Mackenzie, former Executive Chairman. A strong governance framework is requisite for the delivery of the new strategy and John Leach will continue to provide advice and oversight on governance.

We conducted our first external Board evaluation during the second half of 2017. It was undertaken by Condign Board Consulting, which concluded that the Board and the Committees were operating effectively and that the separation of the CEO's and Chairman's roles had produced immediate improvements.

Executive appointments

We have strengthened our Executive Committee with the appointment of Gareth Kirkwood and Ollie Holden.

As Chief Customer Operations Officer, Gareth is responsible for ensuring we provide the highest standards of service to our customers from their first contact and then throughout their lifetime with the AA. Gareth's experience in customer facing operational roles in various British Airways divisions and within Telecoms, Marine and Travel businesses gives him highly relevant expertise.

Chief Information Officer, Ollie, is accountable for defining and implementing the IT strategy for the Group, shaping the digital transformation and providing robust IT services to customers and employees. Ollie has highly relevant experience in leading IT and change as a senior manager within Accenture, LV and Talk Talk.

We have also strengthened the teams below the Executive Committee and are rebuilding our culture to generate the high-performance behaviours needed to deliver the ambitions we have set.

Pensions

In June 2017, we concluded the triennial review of the AA's UK defined benefit pension scheme and agreed a funding plan for the deficit which had increased, largely as a result of the reduction in long term gilt yields. A nine-year plan of incremental funding is now in place, taking into account the continued funding of the previous deficit. The next triennial actuarial review is scheduled for 31 March 2019.

Changes successfully made to the defined benefit pension scheme mitigated some of the recent increases in ongoing pension service costs. Overall, the changes have reduced our exposure to pension risks, increased our competitiveness within our industry, and provided for a more consistent pension offering across our business.

Refinancing

The refinancing in July 2017, which included the use of cash to repay £98m of the Senior Term Facility, further reduced the cost of borrowings and extended the average maturity of our debt with the first repayment due in July 2020. Since the IPO in June 2014 we will have reduced the annual debt interest cost on our borrowings by £90m excluding the hedging costs.

Dividend

As announced in February, the Board has changed its policy on dividends as a result of the investment associated with the new strategy and the operation of the dividend gating covenant under the Whole Business Securitisation (WBS) debt structure. We propose a dividend of 2p per share per year from FY19, until such time as the Board is satisfied that the profit and free cash flow enable a change in policy.

In view of this, the Board is recommending a final dividend in respect of FY18 of 1.4p per share, subject to approval at the AGM on 8 June. Added to the interim dividend already paid, recommended total dividends for FY18 are 5p per share.

We currently expect the dividend in respect of FY19 to be split 0.6p per share for the interim and 1.4p per share for the final.

Outlook

The new strategy plans for additional investment to support the business and has resulted in a change in expectations for FY19 which we announced on 21 February 2018. We expect FY19 Trading EBITDA of between £335m and £345m. This provides a base upon which we can return to growth. We are targeting annual Trading EBITDA growth of 5% to 8% from FY19 to FY23.

Despite the investments made up of capital and operational expenditure in FY19, we expect to generate free cash flow of approximately £20m even in this year. As this is the low point of cash generation, we expect to generate in excess of £80m of free cash flow in FY20 and in excess of £100m per annum thereafter, excluding the cost of any refinancing.

New segmental reporting

In line with our new strategy, we have altered our segmental reporting to align it more closely with the way the business is managed. Roadside Assistance and Driving Services are now shown together as Roadside. Insurance Services and Insurance Underwriting are now combined as Insurance.

Head office costs have been apportioned to our two new segments. Costs are directly allocated where it is possible to do this, all other costs are allocated on the basis of a pro-rata share of revenue.

In addition to these changes, the reconciliation from Trading EBITDA to operating profit before exceptional items will now include a divisional apportionment to Roadside and Insurance for share-based payments, pension service charge adjustments and amortisation and depreciation.

TRADING REVENUE	2018 £m	2017 £m
Roadside Assistance	**747**	742
Driving Services	**67**	67
Roadside Revenue	**814**	809
Insurance Services	**133**	131
Insurance Underwriting	**12**	–
Insurance Revenue	**145**	131
Trading Revenue	**959**	940

TRADING EBITDA	2018 £m	2017 £m
Roadside Assistance	**345**	365
Driving Services	**22**	20
Head Office costs	**(47)**	(48)
Roadside Trading EBITDA	**320**	337
Insurance Services	**79**	76
Insurance Underwriting	**1**	(1)
Head Office costs	**(9)**	(9)
Insurance Trading EBITDA	**71**	66
Trading EBITDA	**391**	403

OPERATING PROFIT	**2018 £m**	2017 £m
Trading EBITDA	**391**	403
Share-based payments	**(7)**	(12)
Of which:		
Roadside	**(6)**	(10)
Insurance	**(1)**	(2)
Pension service charge adjustment [1]	**(10)**	(8)
Of which:		
Roadside	**(8)**	(7)
Insurance	**(2)**	(1)
Amortisation and depreciation	**(70)**	(67)
Of which:		
Roadside	**(63)**	(60)
Insurance	**(7)**	(7)
Operating profit before exceptional items	**304**	316
Exceptional operating items	**3**	(32)
Operating profit	**307**	284

1. The pension service charge adjustment relates to the difference between the cash contributions to the pension scheme for ongoing contributions and the calculated annual service costs

Business performance

ROADSIDE

Roadside includes Roadside Assistance and Driving Services.

Roadside Assistance performance is driven by our personal membership base and supported by our business customer (B2B) base, underpinning the scale of our operations which is critical to our success. Each provide approximately half the jobs for the 2,900-strong patrol force.

We have 2,742 driving instructors in our franchised driving schools, the AA and BSM, providing driving lessons for approximately 80,000 learners each year. DriveTech is joint market leader in providing speed awareness courses for police forces in the UK and fleet training services.

	2018	**2017**	**Change**
Trading Revenue (£m)	**814**	809	1%
Trading EBITDA (£m)	**320**	337	(5)%
Trading EBITDA margin (%)	**39.3**	41.7	(6)%
Personal Members excluding free Memberships (000s)	**3,289**	3,335	(1)%
Average income per personal Members excluding free Memberships (£)	**157**	158	(1)%
Business customers (000s)	**9,928**	9,976	(1)%
Average income per Business customer (£)	**20**	20	-
Number of breakdowns (‘000s)	**3,679**	3,635	1%
Driving instructors	**2,742**	2,607	5%

Trading Revenue grew 0.6% to £814m driven largely by increased pay-for-use B2B revenue. Trading EBITDA declined by 5.0% to £320m primarily reflecting the cost increases of service delivery. Head office costs declined from £48m to £47m. Trading EBITDA margin decreased from 41.7% to 39.3% reflecting the EBITDA decline.

Roadside Assistance

The contribution from Roadside Assistance rose 0.7% to £747m despite a decline in memberships and business customers. Growth was the result of increased pay-for-use revenue from B2B, increased ancillary sales and increased revenue from vehicle inspections, AA Cars and publishing.

Paid personal memberships declined 1.4% to 3.29m. New member growth of 7% (2017: 14%) was good, particularly against last year's strong performance, driven again by digital sales. Our expansion into younger segments has begun, helped by our effective and well-received "singing baby" advertising campaign. Retention was broadly flat at 82%, a strong performance given the significant challenges we faced. These included the impact of the rise in IPT in June 2017; the dilution from an increase in new members, whom we retain at lower rates; our completed programme of redress for customers affected by duplicate cover; and the introduction in April of new renewal price transparency regulations. StayAA, our proactive retention programme, achieved all-time high results, retaining 72% of those who call to cancel, with discounts averaging 22%, compared with 57% and 35% respectively when the programme was launched in 2014. The discontinuation of the free-to-paid insurance channel from December 2015 has resulted in a reduction in membership by approximately 70,000 in FY18 and this pipeline of additional paid members has now ceased.

Average income per paid member declined 0.6% to £157 (2017: +1.3% to £158), reflecting our constraint in passing through price rises above the increase in IPT and the dilution of introductory discounts from the increased number of new members.

Business customers declined 0.5%, falling to 9.9m reflecting the anticipated decline in the number of Added Value Accounts (AVAs) with our banking partners Lloyds Banking Group and TSB and the lower number of new cars sales for our manufacturing partners. During the year we retained or extended a number of contracts including VW Group and Ford.

Average income per business member was flat at £20.

Trading EBITDA fell by £20m to £345m. Apart from the decline in membership numbers and business customers, this was largely the result of the increased costs of third-party garaging due to workload peaks and wage inflation which we were unable to absorb through price rises. Trading EBITDA margin declined from 49.2% to 46.2%.

Driving Services

Trading Revenue was flat, at £67m. The 5.2% rise in driving instructor franchises to 2,742 (2017: 2,607) was the result of improvements to our franchise proposition and the strength of the AA and BSM brands. This offset the marginal decline from fewer courses delivered by DriveTech. While the number of speed awareness courses for the police increased, the number of courses for our corporate partners declined.

Trading EBITDA rose £2m to £22m, driven by the improvement in Driving Schools and efficiency savings in both businesses. Trading EBITDA margin rose from 29.9% to 32.8%.

INSURANCE

Insurance includes Insurance Services, comprising our Insurance Broker and our Financial Services partnership with Bank of Ireland, and our in-house Underwriter.

Growth was driven by our insurance broker which has focused on the core products of motor and home insurance and returned our broker motor book to growth while slowing the anticipated decline in home policies. While our leading brand consideration in motor insurance has underpinned this strong performance, our in-house underwriter has been critical through its competitive pricing, as have investments in insurer hosted pricing (IHP) to improve our pricing agility with our panel.

Our in-house underwriter's motor book was launched in January 2016 and followed in August 2016 with the launch of home policies. The underwriter's ability to price members' policies competitively is based on our extensive data. It is now in profit and has plans to extend beyond members.

Our financial services partnership with the Bank of Ireland, launched in July 2015, builds on a long past history of AA financial services and enables us to enhance our membership proposition.

	2018	**2017**	**Change**
Trading Revenue (£m)	145	131	11%
Trading EBITDA (£m)	71	66	8%
Trading EBITDA margin (%)	49.0	50.4	(3)%
Total policy numbers in force [1](000s)	1,447	1,451	-
Average income per policy (Motor and Home) (£)	74	70	6%
Total Motor policies (000s)	629	594	6%
Motor policies underwritten (000s)	223	115	94%
Total Home policies (000s)	818	857	(5)%
Home policies underwritten (000s)	184	25	636%
Financial Services products ('000s)	142	100	42%

1 Excludes Financial Services

Trading Revenue rose 10.7% to £145m as higher revenue from our motor insurance broking, the growth in our in-house underwriter more than offset the lower revenues from the Home Emergency Services consumer business, which was sold in January 2018. Trading EBITDA rose 7.6% to £71m with flat head office costs of £9m. Trading EBITDA margin declined from 50.4% to 49.0% as a result of the increase in the lower-margin underwriter revenue.

Insurance Services

Trading Revenue rose 1.5% to £133m. We grew our motor book by 5.9% to 629,000 policies, benefitting from incremental sales and renewals through our in-house underwriter, which continues to perform ahead of expectations. We did well to achieve stable retention despite the challenges of the new renewal pricing transparency regulations from April; the impact of the Ogden rate change on cost of premiums, which drove churn; and the IPT increases. We benefited from improved pricing agility following the installation of insurance hosted pricing (IHP) with five of our motor panel members, including our underwriter. This has enabled us to price more competitively and convert a greater proportion of quotes on price comparison websites (PCWs).

In line with expectations, home policies fell 4.6% to 818,000 as we have not yet made the investment in IHP to improve pricing agility. Overall policy numbers are down as we continue to retreat from less profitable business lines, including insurance categories such as weddings and pets. Home Emergency Services policies for emergency repairs to boilers, heating systems and other domestic installations were down year-on-year. The sale of our Home Emergency Services consumer book was completed in January 2018.

The focus on greater profitability has driven average income per motor and home policy up 5.7% to £74 (2017: £70).

Financial Services revenue was broadly flat at £8m. By the end of January 2018, we had 142,000 Financial Services products across our credit cards, personal loans and savings portfolio. This represents a balance sheet of approximately £400m, broadly match-funded by deposits. Our partnership with the Bank of Ireland, continues to build positive momentum on the strength of our brand and marketing expertise and Bank of Ireland's operational excellence. The AA membership base and brand are benefiting the business with over 17% of the non-ISA savings books held by members and 39% of our personal loans being written for vehicles. The completion of the acquisition of 100% of the AA Cars platform will enable us to expand our loan offering into the growing used car market.

Trading EBITDA rose 3.9% to £79m as a result of the growth of the motor book, the focus on the more profitable business lines and disciplined cost management. Trading EBITDA margin was higher at 59.4% (2017: 58.0%).

Insurance underwriting

Trading Revenue for our underwriting business was £12m compared to nil in the prior year. Gross earned premiums before our 80% reinsurance were £38m (2017: £10m). Deferral of broker commissions amounted to a reduction in revenue of £1m (2017: £3m). Trading Revenue is reported after accounting for the broker deferral adjustment, where the broker commission and associated acquisition costs are recognised over the life of the policy along with the underwriter premium.

We nearly doubled the motor book to 223,000 policies (2017: 115,000) and grew the home book very substantially in its first full year to 184,000 policies (2017: 25,000) due to our competitive pricing which our rich data enables.

Our Combined Operating Ratio was well ahead of our long-term target of 95%. We are also pleased to have achieved strong rates of retention across our motor and home policies book. Net claims paid during the year were £10m (2017: £2m), in line with expectations. Trading EBITDA improved significantly to a profit of £1m from a loss of £1m.

On 7 September 2017, the UK Ministry of Justice announced a draft change to the law used to set the discount rate used in calculating upfront personal injury payments (Ogden discount rate reforms).
The proposal could result in a rate change from the current rate of -0.75% to a rate between 0% and 1%. It will not be applied retrospectively. The proposal, which is currently in draft form, is expected to take a few months to finalise prior to enabling legislation being effective. As a result of the uncertainty, the Insurance Underwriter reserves, as at 31 January 2018, have been calculated based on -0.75%, the current Ogden rate.

The underwriting business remains well capitalised under the Solvency II capital requirements which came into effect on 1 January 2016. As at 31 January 2018, the solvency coverage headroom was approximately 60%[1]. As we grow the underwriter, half the required solvency capital of up to approximately £50m can be funded from the profits of the underwriter and half from internal cash allocation.

1 Unaudited as at the date of these financial statements.

Financial review

Group Revenue

	2018 £m	2017 £m
Roadside	**814**	809
Insurance	**145**	131
Trading Revenue	**959**	940
Exceptional revenue provision	**1**	(7)
Group Revenue	**960**	933

Trading Revenue grew 2.0% to £959m, compared with £940m last year. The increase was driven principally by the strong performance of our in-house Underwriter and Roadside.

Roadside Trading Revenue increased by £5m to £814m. This reflected the robust performance of B2B with an increase in pay-for-use volumes as well as higher ancillary sales. This offset the decline in paid personal members as well as the anticipated reduction in added value accounts.

Roadside Trading Revenue includes the consolidated results from the 100% acquisition of AA Cars. Trading Revenue for Driving Schools and DriveTech was broadly flat.

The strong growth in Insurance Trading Revenue arose from the increased Trading Revenue for Insurance Underwriting to £12m. This growth also boosted the broker with an improvement in Motor Insurance policy numbers driving higher insurance broker revenue. This was slightly offset by a decline in Home Emergency Services policy volumes prior to the sale of the consumer business to HomeServe in January 2018. We will continue to report Home Emergency Services within Insurance until the migration of all of the consumer policies is complete.

Group revenue also included a £1m release of an exceptional revenue provision relating to the £7m exceptional revenue provision for duplicate breakdown cover that we created in the prior year. In total we had provided £10m for refunds to customers of which £3m was charged to exceptional finance costs in the prior year. We agreed a programme of remediation with the regulatory authority and this programme is now substantially complete. The release of £1m reflects what we believe to be the final position for this programme. (See note 16 for further information.)

Group Trading EBITDA

	2018 £m	2017 £m
Roadside	**320**	337
Insurance	**71**	66
Trading EBITDA	**391**	403
Trading EBITDA margin	**40.8%**	42.9%

Trading EBITDA was £391m, in line with our guidance. This 3.0% reduction from FY17 was principally due to the reduction in the Roadside Trading EBITDA. Roadside Trading EBITDA declined by £17m to £320m reflecting the higher costs from garaging due to workload peaks and the higher number of breakdowns attended. In addition, some of the growth in Trading Revenue was from lower margin activities including AA Cars, sales of parts and investment in the connected car proposition.

The increase in Insurance Trading EBITDA largely reflects the improved performance for both the underwriter and the broker.

Overall head office costs were broadly flat during the year with increases in IT software costs offset by continued focus on cost efficiencies. These costs have been directly allocated where it is possible to do this, all other costs are allocated on the basis of a pro-rata share of revenue: £47m (2017: £48m) to Roadside and £9m (2017: £9m) to Insurance.

Trading EBITDA margin reduced from 42.9% to 40.8% as a result of the lower profitability in the Roadside business as described above.

Operating profit

			2018			2017
	Roadside £m	**Insurance £m**	**Group £m**	Roadside £m	Insurance £m	Group £m
Trading EBITDA	**320**	**71**	**391**	337	66	403
Share-based payments	**(6)**	**(1)**	**(7)**	(10)	(2)	(12)
Pension service charge adjustment	**(8)**	**(2)**	**(10)**	(7)	(1)	(8)
Amortisation and depreciation	**(63)**	**(7)**	**(70)**	(60)	(7)	(67)
Operating profit before exceptional items	**243**	**61**	**304**	260	56	316
Exceptional Operating items			**3**			(32)
Operating profit			**307**			284

Operating profit before exceptional items decreased by £12m to £304m, a year-on-year decrease of 3.8%. This reduction was largely driven by the £17m decline in Roadside Trading EBITDA and the increase in amortisation and depreciation reflecting the recent investment in transformation capital expenditure. Share-based payments in Roadside reduced, reflecting the expiration of the first vesting period for the MVP A shares. The pension service charge adjustment increased only slightly as a result of the changes agreed with the pension trustees. Both share-based payments and the pension charge adjustment have been allocated to segments, whereas previously they were not.

The increase in Insurance operating profit before exceptional items reflects the increase in Insurance Trading EBITDA.

Overall depreciation and amortisation for the Group increased by £3m reflecting the progress that we have made to date on the transformation programme.

Overall exceptional items reduced from £32m cost to £3m income. The largest impact arose from the restructuring of the UK pension scheme which resulted in a one-off past service credit of £34m. Of this, £12m arises from the closure of the Final Salary sections of the AA UK scheme and £22m from the change in inflation indexation from RPI to CPI for the CARE (career average salary) scheme.

Impairment of goodwill of £27m includes £26m of goodwill dating back to 2004 that had been historically allocated to Driving Schools.

Other exceptional operating items include £24m relating to business transformation (2017: £14m) offset by a £6m gain on the disposal of the home services consumer business, a £7m credit related to the reversal of share-based payment charges in respect of the former Executive Chairman and a £9m improvement in onerous property provisions. The previous year's charge included £7m for duplicate breakdown cover. The remediation programme to resolve duplicate breakdown cover was completed in March 2018 and, following this, we have released £1m of the provision that is no longer required.

Finance costs

	2018 £m	2017 £m
Interest on external borrowings	**132**	147
Finance charges payable under finance leases	**6**	8
Total ongoing cash finance costs	**138**	155
Ongoing amortisation of debt issue fees	**10**	5
Net finance expense on defined benefit pension schemes	**10**	10
Total ongoing non-cash finance costs	**20**	15
Debt repayment premium and penalties	**10**	2
Transfer from cash flow hedge reserve for extinguishment of cash flow hedge	**(2)**	6
Debt issue fees immediately written off following repayment of borrowings	**1**	4
Duplicate breakdown cover – interest on refunds	**–**	3
Exceptional finance costs	**9**	15
Total finance costs	**167**	185

Total finance costs fell £18m to £167m, with benefits of £15m from lower interest on external borrowings, £2m from lower finance charges payable under finance leases and a non-cash adjustment to the cash flow hedge reserve. These were partly offset by the early repayment penalties of £10m incurred in the refinancing in July 2017 in which we repaid Class A1 notes of £175m and Class A4 notes of £55m, as well as £98m (2017: £106m) of the Senior Term Facility.

Taxation

The tax charge for the year of £30m (2017: £26m) is made up of a current tax charge of £23m (2017: £20m) and a deferred tax charge of £7m (2017: £6m). The effective tax rate was 19.1% (2017: 22.0%). Because the Group is almost entirely UK based, we do not expect to be materially affected by the new legislation restricting the deductibility of interest by reference to UK EBITDA.

Profit and earnings per share

Profit after tax from continuing operations increased to £111m (2017: £74m) principally due to the one-off pension past service credit and the decrease in finance costs which offset the lower trading performance and impairment of goodwill. As a result, basic earnings per share from continuing operations rose by 6.0p, from 12.2p to 18.2p.

Adjusted underlying profit after tax and adjusted basic and diluted earnings per share were broadly flat at £133m (2017: £130m) and 21.8p (2017: 21.3p) respectively. The adjustments included exceptional operating items of £3m, pension service charge adjustment and penalties on early repayment of debt of £10m.

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

Cash flow and liquidity

Free cash flow

	2018 £m	2017 £m
Trading EBITDA	**391**	403
Working capital excluding provisions and pensions	**(11)**	(22)
Pension deficit reduction contributions	**(21)**	(20)
Other items	**9**	10
Cash flow from continuing operating activities before exceptional items and taxation	**368**	371
Capital expenditure, capital payments on finance leases less proceeds from sale of fixed assets ("capex")	**(86)**	(96)
Exceptional items and tax paid	**(52)**	(36)
Acquisitions and disposals	**1**	99
Debt refinancing activities	**(96)**	(102)
Interest on borrowings and finance leases less interest receivable	**(140)**	(149)
Free cash flow before equity – continuing operations	**(5)**	87
Dividends paid	**(56)**	(55)
Net cash flows from operating activities – Discontinued operations	**-**	10
Net increase in cash and cash equivalents	**(61)**	42
Cash conversion (%)	**94**	92

Cash conversion remained healthy at 94% (2017: 92%) and was higher than the prior year due to the reduced impact of working capital. Cash flow from continuing operating activities before exceptional items and taxation was in line with the prior year with the decline in Trading EBITDA and the movement on working capital offset by a reduction in the adjustments included within other items. Excluding pensions and provisions, the change in working capital reduced by £19m compared to the prior year. Pension deficit reduction payments of £21m (2017: £20m) increased in line with the agreement in July 2017.

Capex included £34m of IT transformation capex, the final tranche of the investment originally set out at the IPO, and £53m of maintenance capex offset by £1m in capex accrual. The IT investments to date have significantly strengthened and modernised the AA's foundations, particularly in the development of our dispatch system, the AA app and new digital sales platform and in the specification and development of our membership system which is yet to be fully implemented. We have also laid the foundations for growth in our insurance business through investment in new technology and the creation of our in-house underwriter. However, more needs to be done to achieve sustainable long-term growth in both Roadside and Insurance. Our strategy involves an additional £73m of growth capex over the next three years and projected maintenance capex of approximately £55m per annum.

Free cash flow before equity for continuing operations was an outflow of £5m (2017: inflow of £87m).

The Group's cash balance has decreased to £150m (2017: £211m). The debt refinancing in July 2017 led to a net cash outflow for the year of £61m (2017: £42m inflow). A new Working Capital Facility of £75m, reduced from the previous £150m facility, was put in place to 31 July 2021 on a reduced margin and currently remains undrawn. Cash is held in AAA money market funds for easy access and high liquidity.

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 increased to £29m (2017: £23m) principally due to the growth in the Underwriting business.

Capital management

The Group capital is a combination of net debt and equity. As at 31 January 2018, net debt was £2.7bn while the equity market capitalisation was £0.8bn.

The Directors seek to achieve an appropriate balance between the higher return that is possible with borrowings and the advantages and security of equity funding. We aim to reduce both the amount of net debt and the cost of servicing it over time with the overall aim of lowering net debt to EBITDA to between 3 to 4 times in the medium to long term. The inevitable consequence of declining profitability in FY19 is that our leverage ratio will increase further in the next twelve months and we expect net debt to EBITDA to peak at around 7.8x in January 2019. Whilst this level of gearing is high we intend to reduce it by growing EBITDA and generating cash to pay down debt.

In July 2017, we completed a further refinancing package which resulted in the extension of the maturity of debt and further savings in annual interest costs. We used some of our free cash flow partially to pay down debt.

The Group issued Class A6 notes for a principal amount of £250m under the multicurrency note programme listed on the Irish Stock Exchange and used the proceeds to redeem the remaining Class A1 and Class A4 notes. At the same time, the Group used available cash resources to reduce by £98m its senior term debt and extended that facility through the replacement of the existing Senior Term Facility with a new Senior Term Facility. The new facility extends the maturity of the senior term debt from 31 January 2019 to 31 July 2021.

The Class A6 notes were issued on 13 July 2017 and have an expected maturity date of 31 July 2023. The notes have a coupon of 2.75% payable semi-annually in arrears. The proceeds from the issue were used to redeem all of the remaining £175m 4.72% Class A1 notes and £55m 3.78% Class A4 notes plus make-whole payments that were paid on 31 July 2017.

As described above, a new Working Capital Facility of £75m, reduced from the previous £150m facility, was put in place to 31 July 2021 on a reduced margin. This remains undrawn.

The extension in maturity of debt means that the next repayment of borrowings is due in July 2020. The initial annual interest saving is expected to be c£3m for the years ending 31 July 2018 and 31 July 2019, then will increase to an annual interest saving of c£14m for the year ending 31 January 2020 as a result of the expiry of the existing hedging arrangements allowing the use of more of our free cash flow to pay down debt. In addition, there will be a saving of fees amounting to £0.6m following the reduction of the Working Capital Facility.

The refinancing is in line with our capital management strategy to reduce overall group borrowings as well as the associated interest cost. Since the IPO in June 2014 we have reduced gross borrowings by £623m and the annual debt interest cost on our borrowing by £90m excluding the hedging costs.

The capital structure at 31 January 2018

	Expected maturity date	Interest rate %	Principal £m
Senior Term Facility	31 July 2021	5.71[1]	250
Class A2 notes	31 July 2025	6.27	500
Class A3 notes	31 July 2020	4.25	500
Class A5 notes	31 January 2022	2.88	700
Class A6 notes	31 July 2023	2.75	250
Class B2 notes	31 July 2022	5.50	570
Total borrowings		**4.52**	**2,770**
Finance lease obligations			**64**
Cash and cash equivalents			**(150)**
Total net debt			**2,684**
Equity (valued at close on 31 January 2018)			**770**
Total capital			**3,454**

1. Fixed interest rates with LIBOR hedged for STF: to 31.7.18 fixed at 5.71%; 31.7.18 to 31.1.19 fixed at 8.42%; 1.2.19 to 31.7.21 fixed at 2.75%

The weighted average interest rate for all borrowings of 4.52% has been calculated using the effective interest rate and carrying values on 31 January 2018.

The Company continues to evaluate its optimal refinancing strategy of its debt maturities and coupon payments including the A notes, B notes and Senior Term Facility. Early redemption of the A notes will result in make-whole interest penalties up to the date of maturity, the B2 note also has make-whole interest penalty provisions up to 31 July 2018, after which, a reducing sliding scale premium on redemption of the principal needs to be paid up to 31 July 2020. The cash generative nature of the business and the strategic priorities outlined for growth mean that we remain confident in our ability to service the interest obligations on our debt for the foreseeable future.

On 13 April 2018, S&P Global Ratings reaffirmed the credit rating of our Class A notes at BBB- and the Class B2 notes at B+.

Net debt

Year ended 31 January	**2018 £m**	2017 £m
Senior Term Facility	**250**	348
Class A notes	**1,950**	1,930
Less: AA Intermediate Co Limited group cash and cash equivalents	**(50)**	(136)
Net Senior Secured Debt[1]	**2,150**	2,142
Class B2 notes	**570**	570
Finance lease obligations	**64**	67
Net WBS debt[2]	**2,784**	2,779
Less: AA plc cash and cash equivalents[3]	**(100)**	(75)
Total net debt	**2,684**	2,704
AA plc Trading EBITDA	**391**	403
AA Intermediate Trading EBITDA[4]	**393**	414
Net debt ratio[5]	**6.9x**	6.7x
WBS leverage ratio[6]	**7.1x**	6.7x
Senior leverage ratio[7]	**5.47x**	5.2x
Class A free cash flow: debt service[8]	**3.3x**	3.3x
Class B free cash flow: debt service[9]	**2.4x**	2.3x

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 EBITDA including discontinued operations as calculated 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 as calculated by the debt documents.
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 undertake those finance activities which are not restricted.

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

	2018	2017
Net senior leverage (AA Intermediate Co Limited group)[1]	**5.47x**	5.2x
Excess cash flow[2]	**£91m**	£194m
Fixed charge cover ratio[3]	**3.0x**	3.0x
Consolidated net income[4]	**£208m**	£214m

Note that the above table relates to the financial activities of the AA Intermediate Co Limited group and therefore will differ 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 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 dividends paid by the AA Intermediate Co Limited group.

Dividends

We reviewed our dividend policy as part of our strategy refresh and have set a new policy. This has also had an impact on dividends for the 2018 financial year.

We recommend a final dividend of 1.4p per share in respect of FY18 subject to approval by shareholders at our forthcoming AGM. At the interim results for FY18, the Board declared that the interim dividend would be maintained at 3.6 pence per share and it was paid on 10 November 2017. Total dividends for FY18 are therefore expected to be 5p per share.

Dividend policy and proposal for FY19

The Board has changed its policy on dividends as a result of the investment outlined as part of our strategy update, and the operation of the dividend gating covenant under the Whole Business Securitisation debt structure (WBS). The release of cash from the WBS to the PLC level can only be permitted providing the senior leverage ratio (the A notes and Senior Term Facility), after payment, is less than 5.5x and providing there is sufficient excess cash flow to cover the payment. We currently have available cash of £79m at PLC level, outside of the WBS.

We propose paying two pence per share per annum from FY19 until such time as the Board is satisfied that profit and free cash flow enable a change in dividend policy.

We currently expect the dividend in respect of FY19 to be split 0.6p per share for the interim and 1.4p per share for the final.

Pensions

On 8 June 2017, the AA announced that the triennial review of the AA's UK defined benefit pension scheme had been concluded and the Trustee and the AA had come to agreement on the deficit funding plan. This plan was based on the triennial valuation of the UK's pension scheme deficit as at 31 March 2016 of £366m and compared with the previous 2013 triennial deficit valuation of £202m. The increase in the deficit was largely caused by the reduction in long-term gilt yields.

We have agreed a nine-year deficit recovery additional funding plan with the Trustee, taking into account the continued funding of the previous deficit. We will make additional contributions of:

- £8m per annum until March 2019.
- £11m from April 2019 for one year.
- £11m plus inflation per annum from April 2020.
- £13m from April 2021 for one year.
- £13m plus inflation per annum from April 2022 to June 2026.

These will be incremental to the existing deficit reduction contributions to the UK pension scheme of £13m increasing with inflation through to 2038. The total deficit reduction payment to the UK pension scheme in the 2018 financial year was £19m. The next triennial actuarial review is scheduled as at 31 March 2019.

The UK pension deficit under the defined benefit scheme was £188m (2017: £325m), as reported under IAS 19.

The AA has also put into action the changes to the defined benefit pension scheme which has Final Salary sections and a CARE (career average revalued earnings) section. All employees that were in the Final Salary section of the scheme were moved to the existing CARE section to build up future defined pension benefits. Changes were also made to the CARE section with the inflation measure for pension indexation moved to CPI from RPI and additional employee contributions of 1.5% of salary and a change to accrual rates.

This approach has mitigated some of the recent increases in ongoing pension service costs. Overall, the changes have reduced our exposure to pension risks, increased our competitiveness within our industry and provided for a more consistent pension offering across our existing defined benefit scheme members.

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 16 April 2018 by

Simon Breakwell	Martin Clarke
Chief Executive Officer	Chief Financial Officer

This announcement contains "forward-looking statements" which are prospective in nature and are not based on historical facts, but rather on current expectations and projections about future events. Such statements are therefore subject to risks and uncertainties which could cause actual results to differ materially from the future results expressed or implied by the forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of forward-looking words such as "plans", "expects" or "does not expect", "is expected", "is subject to", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "should", "would", "might" or "will" be taken, occur or be achieved. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements, including business, economic and regulatory changes as well as the risks set out in the AA's annual report and accounts, which can be found on its website (www.theaaplc.com/investors). Such forward-looking statements should therefore be construed in the light of such factors. Neither the AA, nor any of its associates or directors, officers or advisers, provides any representation, assurance or guarantee that the events expressed or implied in any forward-looking statements in this announcement will actually occur. You are cautioned not to place undue reliance on these forward-looking statements. Other than in accordance with its legal or regulatory obligations (including under the Market Abuse Regulation, the Listing Rules and the Disclosure Guidance and Transparency Rules), the AA is not under any obligation to update, revise or correct any forward-looking statements, whether as a result of new information, future events or otherwise. No statement in this announcement should be construed as a profit forecast or relied upon as a guide to future performance.

Consolidated income statement

	Note	for the year ended 31 January 2018 £m	2017 £m
Continuing operations			
Trading Revenue	2	**959**	940
Exceptional revenue provision	3	**1**	(7)
Group Revenue	2	**960**	933
Cost of sales		**(360)**	(341)
Gross profit		**600**	592
Administrative & marketing expenses		**(292)**	(309)
Share of (loss)/profit of joint venture and associates, net of tax		**(1)**	1
Operating profit		**307**	284
Trading EBITDA	2	**391**	403
Share-based payments		**(7)**	(12)
Pension service charge adjustment	2	**(10)**	(8)
Amortisation and depreciation	8,10	**(70)**	(67)
Operating profit before exceptional items		**304**	316
Exceptional operating items	3	**3**	(32)
Operating profit		**307**	284
Finance costs	4	**(167)**	(185)
Finance income	5	**1**	1
Profit before tax		**141**	100
Tax expense	6	**(30)**	(26)
Profit for the year from continuing operations		**111**	74
Discontinued operations			
Profit for the year from discontinued operations		**-**	80
Profit for the year		**111**	154

Earnings per share from profit for the year

	Note	2018 pence	2017 pence
Basic from total operations	7	**18.2**	25.3
Basic from continuing operations	7	**18.2**	12.2
Basic from discontinued operations	7	**-**	13.1
Diluted from total operations	7	**18.2**	25.3
Diluted from continuing operations	7	**18.2**	12.2
Diluted from discontinued operations	7	**-**	13.1

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

Consolidated statement of comprehensive income

	Note	**2018 £m**	2017 £m
		for the year ended 31 January	
Profit for the year		**111**	154
Other comprehensive income on items that may be reclassified to profit and loss in subsequent years			
Exchange differences on translation of foreign operations		**(1)**	2
Effective portion of changes in fair value of cash flow hedges		**8**	13
Tax effect	6	**(3)**	(1)
		4	14
Other comprehensive income on items that will not be reclassified to profit and loss in subsequent years			
Remeasurement on gains / (losses) on defined benefit schemes	17	**120**	(99)
Tax effect	6	**(21)**	17
		99	(82)
Total other comprehensive income		**103**	(68)
Total comprehensive income for the year		**214**	86

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

Consolidated statement of financial position

	Note	as at 31 January **2018** **£m**	 2017 £m
Non-current assets			
Goodwill and other intangible assets	8	**1,300**	1,283
Property, plant and equipment	10	**127**	131
Investments in joint ventures and associates		**8**	10
Other receivables	11	**3**	-
Deferred tax assets	6	**31**	62
		1,469	1,486
Current assets			
Inventories		**7**	6
Trade and other receivables	11	**201**	195
Cash and cash equivalents	12	**150**	211
		358	412
Total assets		**1,827**	1,898
Current liabilities			
Trade and other payables	13	**(528)**	(520)
Current tax payable		**(10)**	(11)
Provisions	16	**(13)**	(19)
		(551)	(550)
Non-current liabilities			
Borrowings and loans	14	**(2,736)**	(2,819)
Finance lease obligations		**(16)**	(20)
Defined benefit pension scheme liabilities	17	**(240)**	(395)
Provisions	16	**(4)**	(11)
Deferred consideration	13	**(11)**	-
Insurance technical provisions		**(24)**	(16)
		(3,031)	(3,261)
Total liabilities		**(3,582)**	(3,811)
Net liabilities		**(1,755)**	(1,913)
Equity			
Share capital		**1**	1
Share premium		**406**	403
Own shares		**(29)**	(26)
Currency translation reserve		**-**	1
Cashflow hedge reserve		**5**	2
Retained earnings		**(2,138)**	(2,294)
Total equity attributable to equity holders of the parent		**(1,755)**	(1,913)

Signed for and on behalf of the Board on 16 April 2018 by

Simon Breakwell
Chief Executive Officer

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 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)**
Profit for the year	-	-	-	-	-	111	111
Other comprehensive income	-	-	-	(1)	5	99	103
Total comprehensive income	-	-	-	(1)	5	210	214
Effective portion of changes in cash flow hedges	-	-	-	-	(2)	2	-
Dividends	-	-	-	-	-	(56)	(56)
Issue of share capital	-	3	-	-	-	-	3
Purchase of own shares	-	-	(3)	-	-	-	(3)
At 31 January 2018	**1**	**406**	**(29)**	**-**	**5**	**(2,138)**	**(1,755)**

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

Consolidated statement of cash flows

	Note	2018 £m	2017 £m
		for the year ended 31 January	
Profit before tax from continuing and discontinued operations		**141**	184
Amortisation and depreciation	8,10	**70**	68
Net finance costs	4,5	**166**	184
Other adjustments to profit before tax		**23**	(62)
Working capital:			
(Increase) in trade and other receivables		**(3)**	(45)
(Decrease) / increase in trade and other payables		**(8)**	23
(Decrease) / increase in provisions		**(6)**	24
Difference between pension charge and cash contributions		**(44)**	(10)
Total working capital adjustments		**(61)**	(8)
Net cash flows from operating activities before tax		**339**	366
Tax paid		**(23)**	(21)
Net cash flows from operating activities		**316**	345
Investing activities			
Capital expenditure		**(63)**	(71)
Proceeds from sale of fixed assets		**18**	18
Acquisitions and disposals, net of cash acquired or disposed of		**1**	99
Interest received		**1**	1
Net cash flows (used in) / from investing activities		**(43)**	47
Financing activities			
Proceeds from borrowings		**250**	700
Issue costs on borrowings		**(7)**	(6)
Debt repayment premium and penalties		**(11)**	(30)
Repayment of borrowings		**(328)**	(766)
Refinancing transactions		**(96)**	(102)
Interest paid on borrowings		**(136)**	(143)
Payment of finance lease capital		**(41)**	(43)
Payment of finance lease interest		**(5)**	(7)
Dividends paid		**(56)**	(55)
Net cash flows used in financing activities		**(334)**	(350)
Net (decrease)/increase in cash and cash equivalents		**(61)**	42
Net foreign exchange differences		**-**	3
Cash and cash equivalents at 1 February		**211**	166
Cash and cash equivalents at 31 January	12	**150**	211

Consolidated statement of cash flows (continued)

The cash flows from operating activities are stated net of cash outflows relating to exceptional items of £29m (2017: £15m). This relates to the cost of business transformation of £14m (2017: £11m), non-recurring costs of IT system implementation and cost restructuring activities of £5m (2017: £7m), costs of reimbursing customers who bought duplicate breakdown cover of £8m (2017: £nil) and a net cash outflow from onerous property lease provisions in respect of vacant properties of £2m (2017: inflow £3m).

Other adjustments to profit before tax of £23m (2017: outflow of £62m) include impairment of goodwill £27m (2017: £nil), profit on sale of home services business £6m (2017: £nil), profit on sale of Ireland £nil (2017: £77m), share of loss from joint ventures and associates of £1m (2017: profit of £1m), share based payment charge of £7m (2017: £12m), profit on sale of fixed assets of £1m (2017 loss: £3m), credit for reversal of MVP share based payment charge £7m (2017: £nil), loss on disposal of VVCR £1m (2017: £nil) and impairment of investment in joint ventures of £1m (2017: £1m).

Operating cash flows from discontinued operations were £nil (2017: £10m).

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

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 2018 or 2017, but is derived from those accounts. The statutory accounts for the year ended 31 January 2017 have been delivered to Companies House and those for 2018 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 2018 Annual Report and Accounts.

2 Segmental information

Following the recent strategic announcement and reflecting the way that the Group will be managed going forwards, the Group has determined that it has two key segments – Roadside and Insurance. Roadside incorporates the previous Roadside Assistance and Driving Services segments and Insurance will combine Insurance Services and Insurance Underwriting. Head Office costs have been allocated to these two key segments as these costs directly support the operations of these segments.

The Group has two reportable operating segments as follows:

- *Roadside:* 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. In addition this segment includes the Group’s publishing and hotels business, the AA and BSM driving schools and DriveTech which provides driver training and educative programs.
- *Insurance:* 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. This segment also includes the insurance underwriting and reinsurance activities of the AA.

2 Segmental information (continued)

	2018 £m	2017 £m
Revenue		
Roadside	**814**	809
Insurance	**145**	131
Trading Revenue	**959**	940
Exceptional revenue provision (see note 16)	**1**	(7)
Group Revenue	**960**	933
Trading EBITDA		
Roadside	**320**	337
Insurance	**71**	66
Trading EBITDA	**391**	403
Share-based payments	**(7)**	(12)
Pension service charge adjustment	**(10)**	(8)
Amortisation and depreciation	**(70)**	(67)
Operating profit before exceptional items	**304**	316
Exceptional operating items	**3**	(32)
Operating profit	**307**	284
Net finance costs	**(166)**	(184)
Profit before tax from continuing operations	**141**	100

2 Segmental information (continued)

All segments operate principally in the UK. Turnover by destination is not materially different from turnover by origin.

Segment performance is primarily evaluated using the Group's key performance measures of Trading Revenue and Trading EBITDA as well as operating profit before exceptional costs.

Trading Revenue is revenue on a continuing basis adjusted for exceptional items. Trading EBITDA is profit after tax on a continuing basis as reported, adjusted for depreciation, amortisation, exceptional operating items, share-based payments, pension service charge adjustments, net finance costs and tax expense. This better reflects the Group's underlying performance.

The pension service charge adjustment relates to the difference between the cash contributions to the pension scheme for ongoing contributions and the calculated annual service costs.

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 does not view this information on a segmental basis.

The segmental analysis based on the previous segmental view is as follows:

	2018 £m	2017 £m
Revenue		
Roadside Assistance	**747**	742
Insurance Services	**133**	131
Driving Services	**67**	67
Insurance Underwriting	**12**	-
Trading Revenue	**959**	940
Exceptional revenue provision (see note 16)	**1**	(7)
Group Revenue	**960**	933
Trading EBITDA		
Roadside Assistance	**345**	365
Insurance Services	**79**	76
Driving Services	**22**	20
Insurance Underwriting	**1**	(1)
Head Office costs	**(56)**	(57)
Trading EBITDA	**391**	403

2 Segmental information (continued)

Reconciliation of new segmental analysis

Revenue

	Roadside		Insurance	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Former segment presentation				
Roadside Assistance	**747**	742	**-**	-
Insurance Services	**-**	-	**133**	131
Driving Services	**67**	67	**-**	-
Insurance Underwriting	**-**	-	**12**	-
Trading Revenue	**814**	809	**145**	131

Operating profit before exceptional items	Roadside		Insurance	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Former segment presentation				
Roadside Assistance	**345**	365	**-**	-
Insurance Services	**-**	-	**79**	76
Driving Services	**22**	20	**-**	-
Insurance Underwriting	**-**	-	**1**	(1)
Head Office costs	**(47)**	(48)	**(9)**	(9)
Trading EBITDA	**320**	337	**71**	66
Share-based payments	**(6)**	(10)	**(1)**	(2)
Pension service charge adjustment	**(8)**	(7)	**(2)**	(1)
Amortisation and depreciation	**(63)**	(60)	**(7)**	(7)
Operating profit before exceptional items	**243**	260	**61**	56

3 Exceptional operating items

	2018 £m	2017 £m
Pension past service credit	**34**	-
Impairment of investment in joint venture	**(1)**	(1)
Duplicate breakdown cover	**1**	(7)
Impairment of goodwill (see note 18)	**(27)**	-
Exceptional operating items	**(4)**	(24)
Total exceptional operating items	**3**	(32)

The Group has recognised a one-off pension past service credit of £34m as a result of the benefit changes implemented during the year (see note 17). This comprised a £12m gain from closure of the Final Salary sections of the AAUK scheme, due to the assumed deferred pension revaluation being lower than the assumed pensionable earnings increases, and a £22m gain from the change in pension indexation in the CARE section from RPI-based to CPI-based, which is expected to be lower in the long term.

Exceptional revenue included £1m for duplicate breakdown cover release (2017: £7m provision). In addition, £nil (2017: £3m) was charged to exceptional finance charges bringing the total exceptional amount for duplicate breakdown cover to £1m release (2017: £10m provision). See note 16 for further information.

Other exceptional operating costs include £24m relating to business transformation costs (2017: £14m), £1m gain on disposal of fixed assets (2017: loss £3m), £2m for IT systems transformation (2017: £3m), £9m improvement in onerous properties position (2017: loss £1m), £6m gain on the disposal of the home services book (2017: £nil), £7m credit for the reversal of share based payment charge relating to the former executive chairman (2017: £nil), £1m relating to the loss on disposal of the VVCR entities (2017: £nil) and £nil mainly relating to non-recurring costs for cost restructuring activities (2017: £3m).

Costs from the current year refinancing in July 2017 and the prior period 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 as debt issue fees (see notes 4 and 15).

4 Finance costs

	2018 £m	2017 £m
Interest on external borrowings	**(132)**	(147)
Finance charges payable under finance leases	**(6)**	(8)
Total ongoing cash finance costs	**(138)**	(155)
Ongoing amortisation of debt issue fees	**(10)**	(5)
Net finance expense on defined benefit pension schemes	**(10)**	(10)
Total ongoing non-cash finance costs	**(20)**	(15)
Debt repayment premium and penalties	**(10)**	(2)
Transfer from cash flow hedge reserve for extinguishment of cash flow hedge	**2**	(6)
Debt issue fees immediately written off following repayment of borrowings (see note 15)	**(1)**	(4)
Duplicate breakdown cover – interest on refunds (see note 16)	**-**	(3)
Exceptional finance costs	**(9)**	(15)
Total finance costs	**(167)**	(185)

Within interest on external borrowings is £7m (2017: £10m) of interest charged on the Senior Term Facility and £9m (2017: £8m) charged in relation to the interest rate swaps used to hedge the variable element of the Senior Term Facility (see note 15).

During the year, the Group repaid Class A1 notes of £175m (2017: £300m) and Class A4 notes of £55m (2016: £195m). As a result, the Group incurred an early repayment penalty of £10m (2017: £nil).

During the year, there were £1m (2017: £4m) of amortised debt issue fees immediately written off following the refinancing.

During the year, the Group repaid £98m of the Senior Term Facility (2017: £106m) and made a non-cash adjustment to the cash flow hedge reserve of £2m. In the prior year, the Group transferred the fair value of the cash flow hedges related to the £106m repayment of the Senior Term Facility of £6m from other comprehensive income to the income statement.

As part of the refinancing during the prior year, the Group incurred a £2m premium cost in relation to the repayment of £165m of the Class B2 notes (see note 15). This premium was written off in the income statement.

5 Finance income

	2018 £m	2017 £m
Interest receivable	**1**	1
Total finance income	**1**	1

6 Tax

The major components of the income tax expense are:

	2018 £m	2017 £m
Consolidated income statement		
Current income tax		
Current income tax charge	**23**	21
Adjustments in respect of previous years	**-**	(1)
	23	20
Deferred tax		
Effect of tax rate change on opening balances	**(1)**	2
Origination and reversal of temporary differences	**9**	2
Adjustments in respect of prior years	**(1)**	2
	7	6
Tax expense in the income statement	**30**	26

	2018 £m	2017 £m
Consolidated statement of comprehensive income		
Tax on the effective portion of changes in fair value of cash flow hedges	**3**	1
Tax on remeasurements of defined benefit pension liability	**21**	(17)
Income tax charged/(credited) directly to other comprehensive income	**24**	(16)

6 Tax *(continued)*

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

	2018 £m	2017 £m
Profit before tax from continuing operations	**141**	100
Tax at rate of 19.1% (2017: 20.0%)	**27**	20
Adjustments relating to prior years	**(1)**	1
Rate change adjustment on temporary differences	**(1)**	2
Expenses not deductible for tax purposes:		
- Share based payments	**(1)**	2
- Impairment of goodwill	**5**	-
- Other non-deductible expenses / non-taxed income	**1**	1
Income tax expense reported in the consolidated income statement at effective rate of 19.1% (2017: 22.0%)	**30**	26

In addition to the tax expense disclosed above, a charge of £nil (2017: £4m) has arisen on discontinued operations.

The 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, the impact of share-based payments and impairment of goodwill.

The new corporate interest restriction legislation was introduced with effect from 1 April 2017. As the majority of the Group activity is taxed within the UK these restrictions have not had a significant impact on the deductibility of the Group's interest. The residual interest disallowance has not resulted in a material increase in the tax charge above.

7 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.

	2018	2017
Basic earnings per share:		
Profit after tax from total operations (£m)	**111**	154
Weighted average number of shares outstanding (millions)	**610**	609
Basic earnings per share from total operations (pence)	**18.2**	25.3

	2018	2017
Basic earnings per share:		
Profit after tax from continuing operations (£m)	**111**	74
Weighted average number of shares outstanding (millions)	**610**	609
Basic earnings per share from continuing operations (pence)	**18.2**	12.2

	2018	2017
Basic earnings per share:		
Profit after tax from discontinued operations (£m)	**-**	80
Weighted average number of shares outstanding (millions)	**-**	609
Basic earnings per share from discontinued operations (pence)	**-**	13.1

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 share incentive plan, shares are purchased monthly at market value and are therefore not dilutive. In addition, matching shares are issued monthly and placed into the employee benefit trust and are therefore not dilutive. As at 31 January 2018 there are no outstanding shares to be issued under these schemes that are potentially dilutive.

The Group has another class of potential dilutive ordinary shares relating to the MVP shares. However, as at 31 January 2018, based on average market value of ordinary shares for the year, these are unlikely to vest and so were not dilutive.

There are no further classes of share that are dilutive as at 31 January 2018.

	2018	2017
Weighted average number of ordinary shares in issue (millions)	**610**	609
Potentially dilutive shares (millions)	**-**	-
Weighted average number of diluted ordinary shares (millions)	**610**	609
Diluted earnings per share from total operations (pence)	**18.2**	25.3
Diluted earnings per share from continuing operations (pence)	**18.2**	12.2
Diluted earnings per share from discontinued operations (pence)	**-**	13.1

7 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.

	2018	2017
Profit after tax from continuing operations as reported (£m)	**111**	74
Adjusted for:		
Operating exceptional items (£m)	**(3)**	32
Share-based payment (£m)	**7**	12
Pension service charge adjustment (£m)	**10**	8
Exceptional finance costs (see note 4) (£m)	**9**	15
Tax expense (£m)	**30**	26
Adjusted profit before tax (£m)	**164**	167
Tax at the effective rate of 19.1% (2017: 22.0%) (£m)	**(31)**	(37)
Adjusted profit after tax (£m)	**133**	130
Weighted average number of shares outstanding (millions)	**610**	609
Adjusted basic earnings per share (pence)	**21.8**	21.3
Weighted average number of diluted ordinary shares (millions)	**610**	609
Adjusted diluted earnings per share (pence)	**21.8**	21.3

8 Goodwill and other intangible assets

	Goodwill £m	Software £m	Total £m
Cost			
At 1 February 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**
Additions	25	51	76
Disposals	(1)	-	(1)
At 31 January 2018	**1,197**	**254**	**1,451**
Amortisation and impairment			
At 1 February 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**
Amortisation	-	31	31
Impairment	27	-	27
At 31 January 2018	**27**	**124**	**151**
Net book value			
At 31 January 2018	**1,170**	**130**	**1,300**
At 31 January 2017	1,173	110	1,283

Within software, £32m (2017: £53m) relates to assets under construction which are not amortised.

Software additions comprise £12m (2017: £12m) in relation to internally developed assets and £39m (2017: £44m) in relation to separately acquired assets.

Goodwill additions of £25m (2017: £nil) relate to future growth prospects following the acquisition of Used Car Sites Limited. Goodwill disposals relate to the Dutch VVCR driver training businesses which were subsequently disposed of.

9 Business combinations

Acquisitions during the year ended 31 January 2018

On 1 October 2017 the Group assumed control of Used Car Sites Limited, a used car sales platform for a provisional consideration of £26m. At the point of acquisition Used Car Sites Limited had receivables of £1.8m, cash of £1.8m and payables of £2.4m. Used Car Sites Limited made a profit before tax of £nil for the year to 30 September 2017 and a profit before tax of £1m for the period 1 October 2017 to 31 January 2018.

On 1 March 2018 the Group completed the purchase of the entire share capital of Used Car Sites Limited. A payment of £12m was made to the former owners and £3m was paid into an escrow account and is payable to the former owners subject to certain conditions being met. These transactions cleared the balance of deferred consideration due within 1 year. This transaction left a remaining balance of £11m provisional deferred consideration which is due in more than one year based on the probability weighted payout approach. The range of potential contingent consideration is £nil-£21m. The assessment of goodwill arising on acquisition includes deferred consideration. The fair value attributed to the contingent deferred consideration is provisional as at 31 January 2018.

Acquisitions during the year ended 31 January 2017

There were no acquisitions during the year ended 31 January 2017.

10 Property, plant and equipment

	Freehold Land & Buildings £m	Long Leasehold Land & Buildings £m	Vehicles £m	Plant & equipment £m	Total £m
Cost					
At 1 February 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**
Additions	-	-	40	14	54
Disposals	-	-	(34)	-	(34)
At 31 January 2018	**24**	**7**	**104**	**104**	**239**
Depreciation and impairment					
At 1 February 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**
Charge for the year	1	1	25	12	39
Disposals	-	-	(15)	-	(15)
At 31 January 2018	**8**	**4**	**36**	**64**	**112**
Net book value					
At 31 January 2018	**16**	**3**	**68**	**40**	**127**
At 31 January 2017	17	4	72	38	131

The net book amount of vehicles includes £68m (2017: £72m) held under finance lease agreements. The accumulated depreciation on these assets is £36m (2017: £26m).

The net book amount of other assets includes £nil (2017: £nil) in respect of plant & machinery held under finance lease agreements. The accumulated depreciation on these assets is £8m (2017: £8m).

Within plant and equipment £9m (2017: £4m) relates to assets under construction which are not depreciated.

11 Trade and other receivables

	2018 £m	2017 £m
Current		
Trade receivables	**137**	141
Deferred consideration	**3**	-
Prepayments and accrued income	**33**	22
Reinsurers’ share of insurance liabilities	**24**	28
Other receivables	**4**	4
	201	195
Non-current		
Deferred consideration	**3**	-

Included in trade receivables are amounts of £75m (2017: £70m) relating to amounts due from insurance broking customers.

Reinsurers' share of insurance liability comprises £5m (2017: £15m) unearned reinsurance premiums and £19m (2017: £13m) reinsurance claims outstanding.

Non-current receivables of £3m (2017: £nil) relate to deferred consideration following the disposal of the consumer home services business.

12 Cash and cash equivalents

	2018 £m	2017 £m
Ring-fenced cash at bank and in hand – available	**42**	128
Ring-fenced cash at bank and in hand – restricted	**8**	8
Non ring-fenced cash at bank and in hand – available	**79**	60
Non ring-fenced cash at bank and in hand – restricted	**21**	15
	150	211

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 cash flow criteria are met.

Cash at bank and in hand includes £29m (2017: £23m) held by and on behalf of the Group’s insurance businesses which are subject to contractual or regulatory restrictions.

13 Trade and other payables

	2018 £m	2017 £m
Current		
Trade payables	**103**	97
Other taxes and social security costs	**18**	27
Accruals	**54**	57
Deferred income	**236**	241
Deferred consideration	**15**	-
Provision for unearned premiums in Insurance Underwriting	**14**	18
Other payables	**40**	33
Obligations under finance lease agreements	**48**	47
	528	520
Non-current		
Deferred consideration	**11**	-

Included in trade payables are amounts of £66m (2017: £82m) relating to amounts due to underwriters in respect of insurance broking activities.

Current and non-current deferred consideration relates to the acquisition of Used Car Sites Limited, see notes 9 and 19.

14 Borrowings and loans

	2018 £m	2017 £m
Borrowings (see note 15)	**2,727**	2,799
Interest rate swap used for hedging	**9**	20
	2,736	2,819

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 £8m (2017: £19m) and the liability is £17m (2017: £39m).

15 Borrowings

	Expected maturity date	Interest rate	Principal £m	Issue costs £m	Amortised issue costs £m	**Total at 31 January 2018 £m**	Total at 31 January 2017 £m
Senior Term Facility	31 July 2021	5.71%	250	(4)	3	**249**	347
Class A1 notes	31 July 2018	-	-	-	-	**-**	175
Class A2 notes	31 July 2025	6.27%	500	(1)	1	**500**	499
Class A3 notes	31 July 2020	4.25%	500	(3)	2	**499**	499
Class A4 notes	31 July 2019	-	-	-	-	**-**	55
Class A5 notes	31 January 2022	2.88%	700	(37)	8	**671**	664
Class A6 notes	31 July 2023	2.75%	250	(4)	-	**246**	-
Class B2 notes	31 July 2022	5.50%	570	(16)	8	**562**	560
		4.52%	**2,770**	**(65)**	**22**	**2,727**	2,799

At 31 January 2018, the Senior Term Facility carried interest at a rate of LIBOR plus a margin of 1.75%. The variable element has been fully hedged using matching interest rate swap arrangements which fix LIBOR at 3.96% until 31 July 2018, then 6.67% until 31 January 2019. All other borrowings have fixed interest rates. The weighted average interest rate for all borrowings of 4.52% has been calculated using the effective interest rate and carrying values on 31 January 2018. The net decrease of £72m in the carrying amount during the current year consists of £328m for repayment of loan notes and £250m issue of loan notes (see table below) and a £6m change in unamortised issue costs.

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

	As at 1 February 2017	Issue/ repayment date 13 July 2017	As at 31 January 2018 £m
Senior Term Facility	348	(98)	250
Class A1 Notes	175	(175)	-
Class A2 notes	500	-	500
Class A3 notes	500	-	500
Class A4 notes	55	(55)	-
Class A5 notes	700	-	700
Class A6 notes	-	250	250
Class B2 notes	570	-	570
Total £m	**2,848**	**(78)**	**2,770**

15 Borrowings *(continued)*

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 cash flow 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 and Class A6 notes which can be settled without penalty within 3 months and 2 months respectively of the expected maturity date.

On 13 July 2017, the Group issued £250m of Class A6 notes at an interest rate of 2.75%. £4m of costs associated with the issue of the A6 notes were capitalised. This consisted of £1m of premium and £3m of new issue fees.

From the proceeds of the A6 notes, the Group repaid the remaining £175m of A1 notes incurring an interest penalty of £7m and £55m of A4 notes incurring an interest penalty of £3m. In line with the Group accounting policy, this was accounted for as an extinguishment of debt and therefore issue costs associated with the A1 and A4 notes have been written off but totalled under £1m.

Following the sale of the Irish business during the prior year, we held back £24m from the net proceeds in ring-fenced available cash to be used for potential future acquisitions or repayment of debt. On 13 July 2017 the £24m was used as part of a repayment of £98m of the Senior Term Facility. This was treated as an extinguishment of debt and therefore the issue costs of just under £1m associated with the repayment were written off. The balance of the STF was renegotiated and its maturity extended to 31 July 2021. This was treated as a modification and therefore the fees associated with this, which were under £1m, were capitalised.

On the 13 July 2017 the working capital facility was reduced from £150m to £75m. The fees associated with this were under £1m and were written off.

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.

16 Provisions

	Property Leases £m	Restructuring £m	Other £m	Duplicate breakdown cover £m	Total £m
At 1 February 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**
Utilised during the year	(2)	(2)	-	(8)	(12)
Released during the year	(9)	(1)	-	(1)	(11)
Charge for the year	-	10	-	-	10
At 31 January 2018	**6**	**10**	**-**	**1**	**17**
Current	2	10	-	1	13
Non-current	4	-	-	-	4
At 31 January 2018	**6**	**10**	**-**	**1**	**17**
Current	6	3	-	10	19
Non-current	11	-	-	-	11
At 31 January 2017	17	3	-	10	30

The property lease provision primarily relate to dilapidations. These sums are mainly expected to be paid out over the next 11 years, however it will take 36 years to fully pay out all amounts provided for. The provision has been calculated on a pre-tax discounted basis. On the 23 March 2018 the Group signed a settlement agreement to exit from the onerous Halfords service centres lease contracts, agreeing a final settlement of £2m.

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 was utilised in the previous financial year.

In the previous financial year, we became aware that there was some duplication of roadside assistance cover taken by a limited number of business-to-business customers who were personal members and held AVAs (Added Value Accounts) with our banking partners. We proposed a programme of remediation for them which has the support of the regulatory authority. While some were unaware that they had duplicate cover, others chose 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 was not clear. We proposed a programme of remediation for them which has the support of the regulatory authority. We provided a total of £10m for our estimate of the refunds due of which £7m was expected to relate to premiums previously paid for breakdown cover and £3m for interest payable on those premiums. During the period £5m has been paid out relating to premiums and £3m relating to interest, £1m has been released and we expect to pay out the remaining amount during the next financial year.

16 Provisions *(continued)*

On 7 March 2018, the Group received notification that former Executive Chairman, Bob Mackenzie, who was dismissed for gross misconduct on 1 August 2017, had on 6 March 2018 issued a Claim Form in the High Court, Chancery Division against AA plc, its subsidiary Automobile Association Developments Limited and personally against a number of their directors and the Company Secretary. The Claim Form seeks a permanent injunction to retain his MVP shares and up to £225m in damages. As this litigation is active at the date of signing these financial statements, the Board have considered any potential financial impact. The Group has not made a provision for these amounts as the Group expects to be successful in rigorously defending these claims. However, the Group will incur legal costs of approximately £1m to defend these claims during the next two financial years which it would seek to recover from Bob Mackenzie when the litigation concludes.

17 Pensions

	As at 31 January 2018			
	AAUK £m	AAI £m	AAPMP £m	Total £m
Present value of the defined benefit obligation in respect of pension plans	(2,491)	(50)	(45)	(2,586)
Fair value of plan assets	2,303	43	-	2,346
Deficit	**(188)**	**(7)**	**(45)**	**(240)**

	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)**

The decrease in the deficit is due to the strong performance of plan assets, falling long-term inflationary expectations, changes in the demographic assumptions (reflecting the latest outlook for mortality rates), the past service credit in respect of the closure of the final salary sections and change to CPI-linked pension indexation for the CARE section within the AAUK scheme and Group contributions paid into the schemes. This was partially offset by falling discount rates over the period.

In June 2017 the Group completed the AAUK scheme triennial valuation as at 31 March 2016 agreeing a funding deficit of £366m with the pension trustees. The Group has committed to paying an additional £8m per annum from July 2017 to March 2019, £11m per annum from April 2019 to March 2021, uplifted in line with RPI from 1 April 2020 and £13m per annum from April 2021 to June 2026 uplifted in line with RPI from 1 April 2022 annually. In November 2013 the Group implemented an asset backed funding scheme which remains in place. The asset backed funding scheme provides a long-term deficit reduction plan where the Group makes an annual deficit reduction contribution of £13m increasing annually with inflation, until October 2038, secured on the Group’s brands. The next triennial valuation of the AAUK scheme will take place as at 31 March 2019.

17 Pensions *(continued)*

	Assets £m	Liabilities £m	Income statement £m	Statement of comprehensive income £m
Balance at 1 February 2017	2,232	(2,627)	-	-
Current service cost	-	(31)	(31)	-
Past service gain	-	34	34	-
Interest on defined benefit scheme assets / (liabilities)	61	(71)	(10)	-
Amounts recognised in the income statement	**61**	**(68)**	**(7)**	-
Effect of changes in financial assumptions	-	(56)	-	(56)
Effect of changes in demographic expectations	-	65	-	65
Effect of experience adjustment	-	38	-	38
Return on plan assets excluding interest income	73	-	-	73
Amounts recognised in the statement of comprehensive income	**73**	**47**	**-**	**120**
Foreign exchange gain / (loss)	**1**	**(1)**	**-**	**-**
Contribution from scheme participants	1	(1)	-	-
Benefits paid from scheme assets	(64)	64	-	-
Ongoing employer contributions	21	-	-	-
Deficit reduction employer contributions	21	-	-	-
Movements through cash	**(21)**	**63**	-	**-**
Balance at 31 January 2018	**2,346**	**(2,586)**	**-**	**-**

17 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	20	-	-	-
Deficit reduction employer contributions	20	-	-	-
Movements through cash	**(14)**	**54**	-	**-**
Balance at 31 January 2017	**2,232**	**(2,627)**	**-**	**-**

18 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. CGUs represent the smallest group of assets that independently generate cash flow and whose cash flow is largely independent of the cash flows generated by other assets.

The carrying value of goodwill by CGU is as follows:

	2018 **£m**	2017 £m
Roadside Assistance	**874**	874
Insurance Services	**240**	240
Driving Schools	**-**	26
AA Cars (see note 9)	**25**	-
DriveTech	**31**	33
	1,170	1,173

The Group has performed impairment testing at 31 January 2018 and 31 January 2017. The impairment test compares the recoverable amount of the CGU to its carrying value.

The recoverable amount of each CGU has been determined based on a value in use calculation using cash flow projections from the Group's three year plan up to 31 January 2021 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 9.6% (2017: 9.0%).

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.

As a result of this review the Driving Schools' goodwill has been impaired by £26m (2017: £nil) and the DriveTech goodwill has been impaired by £1m (2017: £nil). In addition, DriveTech goodwill has been reduced by £1m (2017: £nil) following the disposal of the Group's Dutch driver training business.

19 Events after the reporting period

Bob Mackenzie Litigation

On 7 March 2018, the Group received notification that former Executive Chairman, Bob Mackenzie, who was dismissed for gross misconduct on 1 August 2017, had on 6 March 2018 issued a Claim Form in the High Court, Chancery Division against AA plc, its subsidiary Automobile Association Developments Limited and personally against a number of their directors and the Company Secretary. The Claim Form seeks a permanent injunction to retain his MVP shares and up to £225m in damages. As this litigation is active at the date of signing these financial statements, the Board have considered any potential financial impact. The Group has not made a provision for these amounts as the Group expects to be successful in rigorously defending these claims. However, the Group will incur legal costs of approximately £1m to defend these claims during the next two financial years which it would seek to recover from Bob Mackenzie when the litigation concludes.

Other post balance sheet events

On 1 March 2018 the Group completed the purchase of the entire share capital of Used Car Sites Limited (trading as AA Cars). A payment of £12m was made to the former owners and £3m was paid into an escrow account and is payable to the former owners subject to certain conditions being met.

On 14 March 2018, the Group completed the sale of the entire share capital of its Dutch subsidiaries, VVCR Europe B.V., VVCR Europe Beroepsopleidingen B.V. and VVCR Europe Holding B.V. for a disposal cost of €32,000.

On 30 March 2018 the group completed the sale of its 49% joint venture stake in TVS Auto Assist (India) Limited for cash consideration of £2m.