

**AA INTERMEDIATE CO LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 JANUARY 2019**

**Company registration number: 5148845**

## Strategic Report

The directors present the consolidated financial statements of AA Intermediate Co Limited (“the Company”) and its subsidiary undertakings (together “the Group”) for the year ended 31 January 2019.

### Financial results

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Trading Revenue (see note 3) grew 1.4% to £960m driven principally by the strong performance of Roadside.

Trading EBITDA (see note 3) was £337m. The 14.2% decline compared to last year was due to strategic expenditure investing in additional resources in front line service, investing in marketing in the insurance business and investing in people across the Group. Head Office costs, which have been allocated to segments, were £64m, up 18.5% compared to last year due to additional IT software costs and investment in key senior level hires to improve the resilience of the business. Group Trading EBITDA margin reduced from 41.5% to 35.1% as a result of the strategic expenditure.

Operating profit before exceptional items decreased by 16.6% to £257m 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 higher at £40m cost (2018: £5m income), including pension past service costs of £22m, impairment of software of £5m and other exceptional operating items of £13m.

Net cash flows from operating activities before taxation decreased from £338m to £266m. Capex included £30m of IT transformation capex, £13m of growth capital expenditure across the Roadside and Insurance businesses, and £59m of maintenance capex (including finance leases net of proceeds of sale of vehicles). Free cash flow to equity was an outflow of £30m (2018: outflow of £6m).

### Strategy update

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Last year we announced our new strategy to invigorate the AA by putting service, innovation and data at its heart. The key focus of our strategy is to develop a digital-led product proposition which can transform our members’ and customers’ experience. This will enable us to innovate and grow our Roadside business and accelerate growth in our Insurance business.

The strategic plan will be delivered in three phases as we test and iterate new digital propositions and build our insurance offering. It will be underpinned by improving our operations, service and culture. By phase three, we will fully utilise our data and digital offering to deliver connected, integrated Roadside and Insurance propositions that will be truly differentiated and will look to capture more of the car ownership value chain.

Phase 1:

- Enhanced Roadside products
- Step-change CRM capabilities
- Connected car – Roll-out
- Insurance growth – Phase 1

Phase 2:

- Connected car – Road, Insurance and B2B – new propositions in market
- Insurance growth – Phase 2

Phase 3:

- Fully utilising our data and digital offering to deliver connected, integrated Roadside and Insurance propositions.

Our opportunity is clear. We are best-placed to make the car ownership experience easier, better value and less hassle. We are hard at work on creating digital experiences that complement one another and put the AA at the centre of our members’ driving lives.

## Strategic Report (continued)

### Pensions

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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.

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.

On 23 August 2018, the AA UK Pension Scheme purchased a bulk annuity policy from Canada Life which insures all the benefits payable under the scheme in respect of 2,510 pensioner and dependant members. The arrangement sees all financial and demographic risks hedged for the covered members and the annuity provides the scheme with a regular income equal to its pension payments to covered members. The annuity is therefore a very precise liability hedging asset that provides an income stream to match future payments. As the premium paid for the annuity exceeded the defined benefit obligation measured as at 23 August 2018, the difference has been recognised as an increase in the balance sheet deficit at that date. In future reporting periods, the volatility around the deficit will be reduced due to the matching qualities of this asset. It should be noted that this is separate to the measure of the funding deficit (used to set cash contributions to the Scheme) which we expect will be reduced as a result of this policy.

The next triennial review of the AA's UK defined benefit pension scheme will be reported on as at 31 March 2019. The results from the review are expected to be received in 2020.

### Financing arrangements and refinancing

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As part of our disciplined and proactive approach to managing our capital structure, we undertook a major refinancing in 2018 and successfully extended the effective maturity of our debt to January 2022.

The extension in maturity means that the next repayment of borrowing (other than that to be funded by the committed forward starting senior facility) is not due until January 2022, giving us the runway to focus on delivering our strategy.

The Company is an Obligor and a parent company of each of the other Obligors that provide security and guarantees under the financing arrangements entered into by the AA on 2 July 2013. The Company's immediate parent is AA Mid Co Limited. There is no material difference in the financial conditions and results of operations between the AA Intermediate Co Limited group and the AA Mid Co Limited group.

## Strategic Report (continued)

### Segmental reporting

In line with our strategy, we report our segmental performance across two core segments, Roadside and Insurance. Roadside is made up of our Roadside Assistance and Driving Services businesses.

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

The reconciliation from Trading EBITDA to operating profit before exceptional items (set out in note 3) includes a divisional apportionment to Roadside and Insurance for share-based payments, pension service charge adjustments, contingent consideration remeasurement gain and amortisation and depreciation. See note 2 for this apportionment.

	2019	2018
	£m	£m
<b>TRADING REVENUE</b>		
Roadside Assistance	778	747
Driving Services	63	66
Roadside Revenue	841	813
Insurance Services	119	133
Insurance Revenue	119	133
<b>Trading Revenue</b>	<b>960</b>	<b>946</b>
<b>TRADING EBITDA</b>		
Roadside Assistance	322	346
Driving Services	17	22
Head Office Costs	(54)	(46)
Roadside Trading EBITDA	285	322
Insurance Services	62	79
Head Office Costs	(10)	(8)
Insurance Trading EBITDA	52	71
<b>Trading EBITDA</b>	<b>337</b>	<b>393</b>

## Strategic Report (continued)

### Business performance review

#### 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 3,000-strong patrol force.

We have 2,412 driving instructors in our franchised driving schools, the AA and BSM, providing driving lessons for approximately 80,000 learners each year. DriveTech is the market leader in driver education including Driver Awareness courses which are offered by police forces.

	<b>2019</b>	2018
Trading Revenue (£m)	<b>841</b>	813
Trading EBITDA (£m)	<b>285</b>	322
Trading EBITDA margin (%)	<b>33.9</b>	39.6
Personal Members excluding free Memberships (000s)	<b>3,206</b>	3,289
Average income per personal Members excluding free Memberships (£)	<b>162</b>	157
Business customers (000s)	<b>9,793</b>	9,928
Average income per Business customer (£)	<b>21</b>	20
Number of breakdowns ('000s)	<b>3,730</b>	3,679
Driving instructors	<b>2,412</b>	2,742

Trading Revenue grew 3.4% to £841m driven by growth in insured B2C and pay-for-use B2B revenue. Trading EBITDA declined by 11.5% to £285m primarily reflecting additional strategic investment expenditure. Head office costs increased from £46m to £54m. Trading EBITDA margin decreased from 39.6% to 33.9% reflecting the EBITDA decline.

## Strategic Report (continued)

### Roadside Assistance

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The contribution from Roadside Assistance rose 4.1% to £778m despite a decline in memberships and business customers. Growth was the result of the strong performance of the B2B business as well as the benefit of consolidating the results of AA Cars.

Paid personal memberships declined 2.4% to 3.21m and retention fell by 1.6% to 80.3%. The decline in paid personal memberships was principally due to our previously announced decision to re-phase our summer marketing campaign, as well as the impact of regulatory pressures and continued competitor activity. Looking ahead, improvements to our wider membership offering, a fully invested marketing plan, the completion and implementation of the new membership IT system (CATHIE) as well as ongoing improvements to the 'Stay AA' customer retention proposition are expected to lead to improved retention rates and a growing paid membership base over the medium term. Stay AA, our proactive retention programme, achieved all-time high results, retaining 72% of those who call to cancel, with discounts averaging 21%, compared with 57% and 35% respectively when the programme was launched in 2014. New membership volumes were steady, with sales broadly flat year-on-year, with strong underlying performance, particularly through our digital channel.

Average income per paid member rose 3.2% to £162 (2018: declined 0.6% to £157). The increase, which is broadly in line with inflation, includes the increase in the proportion of new personal members taking up monthly subscriptions and improved product mix.

Business customers declined 1.4%, falling to 9.79m reflecting the anticipated decline in the number of Added Value Accounts (AVAs) with our banking partners and the reduction in new car registrations across the automotive sector. During the year we retained or extended all of our key contracts in line with commercial expectations. In addition, the AA won a three-year contract with Arval, a significant win for the AA in the Fleet and Leasing sector. The contract renewals, extensions and wins are a strong endorsement of our new strategy and a testament to the value our operational scale, service excellence and breadth of innovative customer solutions can bring to our B2B partners and personal members.

Average income per business customer increased by 5% to £21 (2018: £20), reflecting the new contract wins and the additional revenue recognised under our pay-for-use contracts.

Trading EBITDA (before allocation of Head Office costs) fell by £24m to £322m. This was largely due to the additional strategic opex investments including recruitment of additional patrols and call-centre agents as well as increased third-party garaging costs resulting from the higher demand for our services during the year. Trading EBITDA margin (before allocation of Head Office costs) declined from 46.3% to 41.4%.

### Driving Services

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Trading Revenue for Driving Services fell by £3m to £63m due largely to a change in instructor franchise mix in our Driving Schools business designed to increase our competitiveness as well as the decline in the number of speed awareness courses for the police in our DriveTech business. The 12.0% decrease in driving instructor franchises to 2,412 (2018: 2,742) was the result of the removal of the lower-margin 'Solo' franchise channels. Under new leadership, we are currently developing strategies to grow the Driving Schools business including the digitisation of the booking platform for new drivers. This will be a key enabler as we look to use the Driving Schools business as a growth channel for both our Roadside and Insurance divisions.

Trading EBITDA (before allocation of Head Office costs) fell £5m to £17m reflecting the changes outlined above in relation to our Driving Schools and DriveTech businesses. Trading EBITDA margin (before allocation of Head Office costs) declined from 33.3% to 27.0%.

## Strategic Report (continued)

### INSURANCE

Insurance includes Insurance Services, comprising our Insurance Broker and our Financial Services partnership with Bank of Ireland.

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.

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.

	2019	2018
Trading Revenue (£m)	119	133
Trading EBITDA (£m)	52	71
Trading EBITDA margin (%)	43.7	53.4
Total policy numbers in force <sup>1</sup> (000s)	1,561	1,447
Average income per policy (Motor and Home) (£)	69	74
Total Motor policies (000s)	731	629
Total Home policies (000s)	830	818
Financial Services products ('000s)	112	142

<sup>1</sup> Excludes Financial Services

Trading Revenue decreased 10.5% to £119m driven by lower revenues from the Home Emergency Services consumer business, which we sold in January 2018. Trading EBITDA fell 26.8% to £52m with head office costs of £10m. Trading EBITDA margin decreased from 53.4% to 43.7% due to additional acquisition marketing spend.

### Insurance Services

Trading Revenue fell in line with expectations by 10.5% to £119m. We grew our motor book by 16% to 731,000 policies, benefiting from increased acquisition marketing spend, incremental sales and renewals through the AA plc group in-house underwriter as well as systems investments including Insurer Hosted Pricing (IHP). IHP has now been installed with six of our panel members. This has enabled us to price more competitively and convert a greater proportion of quotes on Price Comparison Websites (PCWs).

The home policy book increased by 1.4% in the year to 830,000. This was a strong performance as we have yet to make the investment in IHP to improve our pricing agility. Looking ahead, we are confident that the additional investments in our systems as well as the commencement of the roll-out of IHP will drive further growth in the home policy book.

Average income per motor and home policy fell by 6.8% to £69, reflecting the investment in new business growth, which has on average lower commissions compared to the rest of the book.

By the end of January, we had 112,000 Financial Services products across our credit cards, personal loans and savings portfolio. This represents a balance sheet size of approximately £558m, broadly-matched by deposits and both of which are held on the balance sheet of Bank of Ireland. Our partnership with Bank of Ireland is working well with the inherent strength of the AA brand and our marketing expertise continuing to support the business. The AA membership base and brand are benefiting the business with 24% of the non-ISA savings books held by members and 38% of our personal loans being written for vehicles. In addition, through our AA Cars platform, we are well positioned to expand our loan offering into the growing used car market.

Trading EBITDA (before allocation of Head Office costs) for Insurance Services fell 21.5% to £62m as a result of the increased acquisition marketing spend by the broker and falling contribution from the sale of the Home Emergency Services consumer book.

## Strategic Report (continued)

### Risk Management

Our Risk Management Framework Policy requires the following:

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

### Principal risks

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

## Strategic Report (continued)

Principal Risks	Description	Mitigation	Change in the year	Impact, likelihood and trend
<p><b>1. Outstanding service:</b> We are unable to maintain an outstanding service</p> <p><b>Primary KPIs:</b></p> <ul style="list-style-type: none"> <li>• Breakdowns attended</li> <li>• Response times</li> <li>• Percentage of completed repairs at the roadside</li> </ul>	<p>The AA's brand and its continued success, and in particular the loyalty of its customers, relies on delivering outstanding service that is superior to the rest of the market. Inadequate investment in technology, systems, people and processes would place this objective at increasing risk.</p>	<p>Over the course of the last year the AA has invested in more patrols, contact centre agents and training and support to ensure we are well placed to provide a premium service to our customers throughout the year. The AA has also made a number of foundational improvements in underlying systems and technology in order to improve stability and resilience.</p> <p>Ongoing monitoring of complaints, press reports and social media through structured processes, including first line business assurance and Compliance and Risk oversight, helps inform our service performance and offerings.</p>	<p>Work continues to increase the flexibility of the patrol force, reduce costs and improve customer service. The complaints handling team has been strengthened to improve response and resolution times.</p>	<p>Delivering outstanding service is fundamental to our future and our brand. The impact of failure to deliver the best service in the market would be very high. The actions we have taken to increase the flexibility of the patrol force, increase contact centre capability and improve our forecasting will reduce the probability of this risk crystallising.</p> <p>Inclement weather, will always have an impact on demand and we continue to learn lessons from these events, in order to better respond to customer demand and to make sure we are in the best position to deal with significant weather extremes.</p>
<p><b>2. Roadside market share and margin:</b> We are unable to maintain our market share and an ability to command a price premium on our roadside services</p> <p><b>Primary KPIs:</b></p> <ul style="list-style-type: none"> <li>• Paid personal members</li> <li>• Business customers</li> <li>• Average income per member</li> <li>• Average income per business customer</li> </ul>	<p>Competitors that provide roadside services at a lower price or have a different business model, together with changes in car technology, threaten our market share. If we charge a price premium that is above that which our service can sustain, we will not grow our member or B2B customer base and, in the long-term, sustainably grow profits. We need to improve, innovate, demonstrate and deliver a superior proposition and ensure our pricing is competitive relative to this position. We also need to ensure our pricing practices are in line with the expectations of our customers and regulators.</p>	<p>We are continuing to improve our roadside membership proposition by strengthening our roadside product offerings and engaging more members in additional benefits.</p> <p>We have improved our communications with both new and existing members, engaging members in their existing services and benefits to drive loyalty.</p> <p>Our pricing team has significant expertise to monitor market pricing levels and ensure we are treating both new and loyal customers fairly whilst remaining competitive.</p>	<p>Car Genie, our Connected Car product, has been deployed through a number of channel offerings and will continue to be piloted alongside existing products or in new products.</p>	<p>Long-term the AA will find it challenging to grow profit sustainably if its membership is declining. Therefore, the impact of membership growth is critical in the long-term, as is maintaining key business relationships such as the Lloyds Banking Group and TSB contracts which renewed in 2019, and other B2B contracts, including major car manufacturers.</p> <p>Membership has remained relatively stable in the last 12 months.</p> <p>The business is focused on realising a sustainably growing membership and recognises the need for a more distinctive and differentiated offering to mitigate competitive pressures.</p>

## Strategic Report (continued)

Principal Risks	Description	Mitigation	Change in the year	Impact, likelihood and trend
<p><b>3. Regulatory and legal environment:</b> A changing regulatory environment may adversely affect our activities</p> <p>Material litigation against the AA</p> <p><b>Primary KPIs:</b></p> <ul style="list-style-type: none"> <li>• FCA consultations and policy statements</li> <li>• Level of FCA, PRA and ICO supervisory interaction</li> </ul>	<p>The changing regulatory environment could cause currently compliant services to become non-compliant, with material implications to customer offerings, pricing and profitability.</p> <p>Failure to comply with regulatory obligations could result in fines and reputational damage.</p> <p>Changes in Government legislation or taxation could impact the business model.</p>	<p>The AA has a zero appetite for systemic non-compliance with legal and regulatory requirements.</p> <p>Close engagement with regulatory objectives is coupled with good governance and strong monitoring processes to ensure that we continue to focus on delivering products and services that result in good customer outcomes.</p> <p>The Board continues to actively review its pricing practices in line with guidance from the FCA and in light of current market practice.</p> <p>Regular dialogue is maintained with the FCA and other regulatory bodies.</p> <p>Our Regulatory and Legal Change Committee tracks forthcoming changes and advises the business on changes required.</p> <p>Products are reviewed regularly to reaffirm they are fit for purpose.</p> <p>The AA has in house Legal and Compliance teams and also takes external legal advice.</p>	<p>In addition to commencing preparation for the Senior Managers and Certification Regime (SMCR), the AA, along with other UK insurers, brokers and aggregators, has responded to the FCA's market study on pricing practices announced in October 2018 and industry data requests.</p> <p>Implementation of Insurance Distribution Directive (IDD) and General Data Protection Regulation (GDPR) requirements has seen a significant change to business processes.</p>	<p>As in previous years the regulatory environment continues to be dynamic with a continuing and demanding programme of regulatory initiatives. These additional requirements may drive further commoditisation into the market at the expense of superior service differentiation.</p> <p>Continued increases in IPT could make insurance products, including Roadside Assistance, less affordable for our customers. The output of the FCA's review of pricing practices could have an impact on product offerings and profitability.</p> <p>Regulatory and legal issues remain a key focus of the Board and of the management team.</p>
<p><b>4. Information security/Cyber crime/Data breach:</b> We are unable to protect ourselves from a significant data breach or cyber security incident</p>	<p>The integrity of critical information is corrupted, resulting in it not being available where and when it is needed, or the confidentiality of commercially sensitive, private or customer information is compromised by inappropriate disclosure or a serious data breach occurs.</p>	<p>The AA has an ongoing programme of security improvements to maintain a suitable level of security for the increasingly sophisticated world-wide cyber threats. Controls include information security awareness training, preventative and detective security, a specialist information security team, and information security requirements being included in third party arrangements.</p> <p>The AA benchmarks its security controls against the Standard for Information Security (ISO27001).</p>	<p>Progress has been made in the year to enhance our IT security and defences against cyber crime and reduce exposure to third party risk. However, firms continue to fall victim to cyber attacks.</p> <p>We consider cyber risk to be an ever emerging/evolving risk and through our ongoing programme of improvement we will continue to take additional steps to improve our controls, taking guidance from external specialists.</p>	<p>As for any company the impact of this risk crystallising could be substantial.</p>

## Strategic Report (continued)

Principal Risks	Description	Mitigation	Change in the year	Impact, likelihood and trend
<p><b>5. Business &amp; IT transformation:</b> We are unable to successfully complete essential business transformation</p>	<p>We must continue to transform the AA to achieve the required efficient customer-centric services and to develop the business.</p> <p>Although much has been achieved in FY19 there remains much to do and the required improvements to process, embedded ways of working and culture, inherently involves risks in a customer facing service environment.</p>	<p>There is an ongoing cost efficiency and process improvement programme in place with progress tracked at regular Management Business Reviews.</p> <p>A rigorous approach is taken in implementing changes to achieve satisfactory control, with ongoing monitoring and reporting.</p> <p>We have a talent management model in place, where skills gaps are identified and development and/or recruitment initiatives are actioned.</p>	<p>In line with the strategy, transformation investment and effort has been focused across core areas including Digital/Connected Car, Data, IT and our core P&amp;Ls, with projects aligned to both strategic enablement and EBITDA generation.</p> <p>Continued investment in our IT systems has improved our productivity and marketing and digital capabilities.</p> <p>The AA has invested in people to effectively manage transformation in the business, including the recruitment of a new Chief Innovation Officer, and a dedicated transformation team.</p>	<p>Strong management capability and oversight have been put in place to better manage this risk.</p>
<p><b>6. Insurance broking:</b> Price comparison sites will further damage the insurance broker model</p> <p><b>Primary KPIs:</b></p> <ul style="list-style-type: none"> <li>• Insurance policies</li> <li>• Average income per motor and home policy</li> </ul>	<p>Consumers' use of price comparison sites may continue to transfer value away from our insurance broking business.</p>	<p>We continue to use our strengths in the brand, channels and data to mitigate this risk and to extend our panel of insurers.</p>	<p>Our Motor Insurance book has increased in the year as a result of the growth in the AA plc group's underwriter and roll out of insurer hosted pricing. The Home Insurance book has remained relatively stable.</p>	<p>The competitive threat from price comparison sites remains unchanged. However, the success of our panel model in the broker and the adoption of insurer hosted pricing enables us to better respond to this threat. Through the AA plc group's in-house underwriter that sits on the panel of insurers, we commenced broadening our target market footprint in FY19 by targeting customers who are not members of the AA and we have seen growth in this area.</p>
<p><b>7. Debt leverage and pensions:</b> We are unable to manage our debt</p> <p><b>Primary KPIs:</b></p> <ul style="list-style-type: none"> <li>• Leverage</li> <li>• Interest cover</li> <li>• Trading EBITDA</li> <li>• Free cash flow before equity</li> </ul>	<p>The Company is unable to repay or refinance its debt at an acceptable price.</p>	<p>We have strong recurring cash flows which support the current capital structure, and which will enable us to reduce leverage over time in line with our stated strategy.</p>	<p>Debt refinancing – The A3 notes were partially repaid and replaced with new debt at no significant change to leverage, but providing certainty to 2022, which in turn will enable delivery of the strategy without the distraction of re-financing in the near term.</p>	<p>The Directors continue to be confident that the Company will be able to refinance existing borrowings at an acceptable price when they fall due. We will continue to make additional repayments to reduce the debt burden as opportunities for this arise.</p> <p>Whilst the Company remains highly leveraged, this further restructuring improves the ability of the Company to manage unforeseen financial shocks.</p>

Further information on the financial risks and management objectives and policies, including market, credit and liquidity risks, is included in note 28 of the financial statements.

## Strategic Report (continued)

### Management discussion and analysis

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

#### Management discussion and analysis – Consolidated income statement for the year ended 31 January 2019

**Revenue:** Group revenue increased by £13m or 1.4% from £947m in the year ended 31 January 2018 to £960m in the year ended 31 January 2019. The increase in revenue was driven principally by the strong performance of Roadside.

*Roadside Assistance:* Roadside Assistance revenue increased by £31m or 4.1% from £747m in the year ended 31 January 2018 to £778m in the year ended 31 January 2019. Growth was the result of the strong performance of the B2B business as well as the benefit of consolidating the results of AA Cars.

*Driving Services:* Driving Services revenue fell by £3m or 4.5% from £66m in the year ended 31 January 2018 to £63m in the year ended 31 January 2019.

*Insurance Services:* Insurance Services revenue decreased by £14m or 10.5% from £133m for the year ended 31 January 2018 to £119m in the year ended 31 January 2019. This was due to lower revenues from the Home Emergency Services consumer business, which we sold in January 2018.

*Exceptional Revenue Provision:* We released £1m from the exceptional revenue provision in the prior year, relating to the revenue provision for duplicate breakdown cover. The prior year release of £1m reflected what we believe to be the final position for this programme and there were no further movements on this provision in the 2019 financial year. (See note 22 for further information.)

**Cost of sales:** Cost of sales increased by £34m or 9.6% from £356m in the year ended 31 January 2018 to £390m in the year ended 31 January 2019 reflecting the additional strategic expenditure in the Roadside and Insurance businesses as well as the impact of higher costs from the additional demand for services in the Roadside business.

**Administrative and marketing expenses:** Administrative and marketing expenses increased by £75m or 27.0% from £278m in the year ended 31 January 2018 to £353m in the year ended 31 January 2019. The increase in administrative and marketing expenses was primarily driven by the exceptional pension past service cost of £22m relating to the Guaranteed Minimum Pension (GMP) equalisation, compared to the pension past service credit of £34m in the prior year, arising from the benefit changes to the AAUK pension scheme.

**Operating profit:** Operating profit decreased by £96m or 30.7% from £313m in the year ended 31 January 2018 to £217m in the year ended 31 January 2019. The decrease in operating profit was primarily driven by the increase in administrative and marketing expenses described above.

**Finance costs:** Finance costs were flat year on year at £167m. Lower interest costs on external borrowings and finance expenses on defined benefit pension schemes were offset by higher amortisation of debt issue fees and debt repayment premium and penalties following the refinancing in the year.

**Finance income:** Finance income decreased by £1m from £1m in the year ended 31 January 2018 to £nil in the year ended 31 January 2019.

**Taxation:** Taxation decreased by £21m from £31m in the year ended 31 January 2018 to £10m in the year ended 31 January 2019. The decrease in tax expense was largely as a result of profits before tax decreasing by £97m which accounts for £19m of tax at the effective rate of tax of 20.0%.

## Strategic Report (continued)

### Trading EBITDA

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

Trading EBITDA decreased by £56m or 14.2% from £393m in the year ended 31 January 2018 to £337m in the year ended 31 January 2019. The decrease in Trading EBITDA was primarily driven by Roadside Assistance as outlined below.

*Roadside Assistance:* Roadside Assistance Trading EBITDA decreased by £24m or 6.9% from £346m in the year ended 31 January 2018 to £322m in the year ended 31 January 2019. Trading EBITDA margins reduced from 46.3% in the year ended 31 January 2018 to 41.4% in the year ended 31 January 2019. The decrease in Trading EBITDA and Trading EBITDA margin was driven by additional strategic opex investments including recruitment of additional patrols and call-centre agents as well as increased third-party garaging costs resulting from the higher demand for services during the year.

*Driving Services:* Driving Services Trading EBITDA decreased by £5m or 22.7% from £22m in the year ended 31 January 2018 to £17m in the year ended 31 January 2019. Trading EBITDA margins decreased from 33.3% in the year ended 31 January 2018 to 27.0% in the year ended 31 January 2019. The decrease in Trading EBITDA and the Trading EBITDA margin was due to the change in instructor franchise mix in the Driving Schools business as well as the decline in the number of speed awareness courses for the police in the DriveTech business.

*Insurance Services:* Insurance Services Trading EBITDA decreased by £17m or 21.5% from £79m in the year ended 31 January 2018 to £62m in the year ended 31 January 2019. Trading EBITDA margins increased from 59.4% in the year ended 31 January 2018 to 52.1% in the year ended 31 January 2019. The decrease in Trading EBITDA was a result of the increased acquisition marketing spend by the broker and falling contribution from the sale of the Home Emergency Services consumer book.

*Head Office Costs:* Head Office Costs increased by £10m or 18.5% from £54m in the year ended 31 January 2018 to £64m in the year ended 31 January 2019. The increase in head office costs is primarily driven by additional IT software costs and investment in key senior level hires to improve the resilience of the business.

### Management discussion and analysis – Consolidated statement of cash flows

**Net cash flow from operating activities before tax:** £338m in the year ended 31 January 2018 compared to £266m in the year ended 31 January 2019. This was due to a decrease in profit before tax and negative working capital movements.

**Tax paid:** Cash outflow from tax paid was £23m in the year ended 31 January 2018 and £15m in the year ended 31 January 2019.

**Investing activities:** Cash flows used in investing activities were an outflow of £43m in the year ended 31 January 2018 compared to an outflow of £79m in the year ended 31 January 2019. The increase was due to higher capex spend in the year and acquisitions including the acquisition of Used Car Sites Limited (see note 12).

**Refinancing transactions:** Cash outflow from refinancing transactions was £96m in the year ended 31 January 2018 compared to £34m in the year ended 31 January 2019. The decrease in cash outflows on refinancing transactions related to lower proceeds from borrowings than repayment of borrowings in the prior year.

**Interest paid on borrowings:** Cash outflow from the interest paid on borrowings was £136m in the year ended 31 January 2018 compared to £129m in the year ended 31 January 2019. The decrease in interest paid on borrowings is due to the refinancing in the prior and current year.

## Strategic Report (continued)

**Payment of finance lease capital and interest:** Cash outflow from the payment of finance lease capital and interest was £46m in the year ended 31 January 2018 compared to £39m in the year ended 31 January 2019. The decrease in cash outflows from payment of finance lease capital and interest was primarily driven by the timing of finance lease disposals and replacements and the timing of the associated end of lease termination payments.

**Dividends paid:** Cash outflow from dividends paid was £80m in the year ended 31 January 2018 and £nil in the year ended 31 January 2019.

On behalf of the Board

M Strickland  
Director

28 June 2019

Registered Office: Fanum House, Basing View, Basingstoke, Hampshire RG21 4EA  
Registered number: 5148845

## Directors' report

The Directors present their report and audited consolidated financial statements of AA Intermediate Co Limited ("the Company") and its subsidiary undertakings for the year ended 31 January 2019.

The Directors who held office during the year and up to the date of signing the financial statements were as follows:

Martin Clarke, Chief Financial Officer (Resigned on 29 April 2019)  
Gillian Pritchard, Director  
Mark Strickland, Director  
Mark Millar, Director (Resigned on 17 April 2018)

Mark Millar, Company Secretary (Resigned on 17 April 2018)  
Catherine Free, Company Secretary (Appointed on 17 April 2018, Resigned 30 January 2019)  
Nadia Hoosen, Company Secretary (Appointed on 30 January 2019)

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

### Directors' indemnities

The Company maintains appropriate Directors' and officers' liability insurance cover. The Company has also granted indemnities to each of its Directors and the Company Secretary to the extent permitted by law. Qualifying third-party indemnity provisions (as defined by section 234 of the Act) were in force during the year ended 31 January 2019 and remain in force, in relation to certain losses and liabilities which the Directors or Company Secretary may incur to third parties in the course of acting as Directors, Company Secretary or employees of the Group.

### Corporate responsibility

#### *A global view*

We recognise the global impacts of the AA and how the way in which we run our business can genuinely make a difference. This year, we want to take the opportunity to outline how we are supporting the United Nations Sustainable Development Goals, the commitments we have made to these and the work that has been undertaken as well as how our management and business processes aim to minimise our impacts and maximise our opportunities to make a genuine difference to society.

How we support the UNSDG's:

We are committed to providing a healthy environment for our people to work in and will promote wellbeing and healthy minds. **This is a primary goal for us.**

We are committed to ensuring the right workforce is available at the right time with the right skills to deliver a safe and responsible service. We will help to develop talent in our local communities through schemes such as work experience, apprenticeships and ex-armed forces placement.

We will respect and treat everyone fairly, from our employees to anyone else who comes into contact with our services. We will not tolerate discrimination and will actively promote equality of opportunity and delivering fairness to all. **This is a primary goal for us.**

Although we are not a water intensive business, we will measure and monitor our usage of this resource and aim to reduce the levels we use at our sites.

We aim to provide a safe working environment and will ensure our teams have the right support in place to enable this. We aim to only use suppliers committed to eradicating forced labour, ending modern slavery and child labour. We will ensure our products, including insurance and banking, meet legal requirements, industry standards and practices (where appropriate). **This is a primary goal for us.**

## Directors' report (*continued*)

We are committed to working with business partners to identify, implement and promote new technologies to make driving safer and encourage eco-driving. We aim to create new products, services and partnerships to help develop the infrastructure needed to support low carbon vehicles.

We are committed to reducing the emissions we generate through the delivery of our service. We will always consider this impact within our fleet and property management. **This is a primary goal for us.**

Our goal is to avoid creating waste; where this is not possible, we will reuse as much as we are able. When waste is generated, we aim for zero waste to landfill. We seek to assess the impacts of products that we supply using a life cycle approach to minimise risks to sustainable production and consumption.

We are committed to helping to mitigate global warming by monitoring and managing the emissions in our business, seeking to reduce these where possible. **This is a primary goal for us.**

We are committed to operating a Group that has sound and effective corporate governance. We will actively encourage whistleblowers to report any concerns with the way in which the Group is being run or any relationships with or service given by suppliers. We will ensure our tax strategy is fair.

We will share best practice with business customers, our suppliers and others in our industry, building partnerships which can, together, make a difference. We will only do business with those suppliers who share our ethical practices and commitments. The AA Charitable Trust will campaign on behalf of the motorist to help make our roads safer and minimise the impacts of driving on the environment. This includes running public awareness campaigns and influencing and working with the Government to achieve this.

### ***A local view***

Throughout this year, we have continued to work closely with our community and to promote safe and environmentally focused use of our roads. To see this work and the campaigns we have been running please go to [www.theaa.com/about-us/aa-charitable-trust](http://www.theaa.com/about-us/aa-charitable-trust). Some of the highlights this year include:

- Our innovative public awareness campaigns on Road Safety were recognised in the prestigious Prince Michael International Road Safety Awards
- Our Drowsy Driver Campaign, part funded by the FiA, highlighted that one quarter of road deaths may be due to drivers falling asleep at the wheel. The campaign aimed to raise awareness of the issue and to offer constructive advice
- Our 'Flag it. Fund it. Fill it.' campaign for ring-fenced funds to improve the state of the roads and raised the issue highlighted by a coroner that lack of repairs can lead to deaths of cyclists

### **Our people**

Achieving our strategic priorities depends on Our Performance our people. They represent our Group among customers and communities. Our aim is to be a great place to work, providing interesting and challenging opportunities, excellent career progression and a collaborative, inclusive and values-based culture for our people. This is the key to creating value for all our stakeholders which is why our people are identified as a principal risk to the successful and sustainable operation of our service.

The most significant areas which impact this risk are:

- Attracting the right talent/our employer brand
- Retaining talent through development, engagement and wellbeing
- Diversity
- Anti-corruption and anti-bribery

These areas are controlled through our policies and processes as well as the monitoring of our management and control strategies through regular reviews with the Senior Management Team. Both internal and external audits are undertaken as part of the ISO certifications relating to our road operations. We have undertaken significant work to address these risks throughout 2018, as detailed below.

## Directors' report (*continued*)

### ***Supporting health in the workplace***

Providing support for employee health and wellbeing is important to our people strategy and demonstrates how we are helping to deliver UNSDG3 Good Health and Wellbeing. This year, we have continued our focus on the wellbeing of our employees. We have appointed a new occupational health (OH) partner who provides an end-to-end support service including occupational health referrals, triage and assessment, alongside tailored solutions. Examples of this include the provision of cognitive behavioural therapy, physiotherapy and surgical interventions if required. Our occupational health referrals have increased year on year which was expected due to our increased focus.

### ***Promoting health and wellbeing***

It is very important to us that we not only support our people in relation to occupational health related issues, but also in any non-work-related health matters which may arise. We utilise the services of our occupational health provider to provide support for medical matters as required, as well as providing awareness and additional promotion for areas such as:

- Mental health – as one of the leading causes of illness, mental health is an area of growing importance to our business. We have taken several steps to support our people, regardless of the issue being work-related or not
- We provide an employee assistance programme which provides free, confidential, 24/7 support for our people both online and over the phone, as well as providing face-to-face therapy sessions as required. Qualified counsellors provide support on a range of topics including personal, work, family relationships and daily living
- We have partnered with our occupational health provider to deliver an emotional wellbeing awareness course to all line managers across the Company during this year. This provides our management team with the skills to identify potential issues and the tools to start the right conversations
- Line managers have received specialist training in managing mental health in the workplace and have attended interactive workshops to gain confidence in being able to identify signs and symptoms of mental health fatigue, as well as being able to identify the most appropriate and practical support mechanisms available
- We provide all employees with stress awareness and management information through a mandatory course that is delivered on a scheduled basis, as well as having access to it if needed in between
- Musculoskeletal support – as one of the leading causes of absence among our people, we have introduced a self-referral programme for all employees to provide them with access to physiotherapy, which is managed by our occupational health provider
- We provide advice for maintaining good health related to seasonal risks such as colds and dehydration, as well as advice and guidance on general wellbeing and mindfulness

We also have various health schemes available within our flexible benefits scheme for our management grade, including access to services such as health checks and dentistry, and access to a private medical service.

### ***Attracting talent to our business***

This year, we changed our internal structure, processes and policies, methods to attract candidates, and our operating model; implementing a strong direct sourcing strategy focused more on longer-term employee value, rather than short-term reactive hiring.

Our employer-brand, encapsulated by 'Ready for ANYTHING?' underpins all our recruitment communications from job postings to the careers site. We've continued to focus on more proactive, innovative approaches to our attraction methods, by really raising our employment profile both generally and within the job families in which we recruit. This year, we designed and delivered our first ever AA recruitment video (the 'Almost any role' film) and ran our first ever AA experiential events, resulting in never-seen-before engagement statistics.

## Directors' report (*continued*)

Our careers website launched last year continues to provide the perfect vehicle to combine all the attraction and engagement elements to really emphasise the brand, the breadth of career opportunities, and a fantastic candidate journey.

The team delivered over 2,700 hires, attracting 56,000 candidate applications (up 86% on last year). Despite this volume, more than 90% of hires come from direct sources, avoiding significant costs and maintaining a low cost per hire.

### ***Military Covenant***

As part of our long-standing commitment to supporting the redeployment of armed services personnel into civilian roles and supporting armed forces reservists, this year we re-signed the Military Covenant which we retained at Gold level. We also continue to promote AA job opportunities through military events and both the CTP (the MoD's official provider of Armed Forces Resettlement) and Early Re-Settlement Magazine.

### ***Engagement with our people***

Following our last employee cultural index survey, Our Voice, we ran a 'snapshot' survey of a representative sample of employees who were in our business at the time of the full Our Voice survey. The results gave us a clear view on the substantial progress we have made in our four key areas:

- Respecting and supporting customer-facing teams and providing more support for them
- Improving cross-team working
- Identifying ways to improve and increase opportunities for development and career progression
- Involving employees in sharing their ideas to improve the business

Throughout this year, we have continued to focus on improving Group-wide communication, including launching a new intranet, the hub, and a weekly news round-up, distributed by email, Business Voice. The hub is a platform for communication and collaboration and is available to all employees online. It's important that our people have a voice and the opportunity to share their thoughts, feedback and suggestions for the business.

As well as online channels we also run regular face-to-face sessions at every location, for our people to hear from the Executive Committee about our progress, ask questions and share ideas. This year, our patrols were brought together at roadshows across the country to hear from the Senior Leadership Team and share their views on our strategy.

This year, we launched a Company-wide recognition scheme, Extra Mile, to recognise and reward our employees for living our values and providing excellent customer service. Extra Mile also promotes local awards, Values in Practice (VIP), encourages peer-to-peer recognition through a variety of e-cards and provides access to discounts on shopping and services. Extra Mile is available to all employees and supports us in developing a thank you culture.

We continue to work closely with our recognised union, the Independent Democratic Union (IDU) as well as the Management Forum (an elected group for management-level employees) to ensure our employees' views are heard, as well as meeting our legal obligation to inform and consult. Meetings dedicated to the operational areas are held with the IDU once a quarter to discuss all employee-related matters, including safety and workers' rights and we engage with them on matters related to pay. For 2019, we have revised our Management Forum terms of reference and will be holding elections for new members.

It is important to us that our people are actively involved with our safety risk assessments so, wherever relevant, at least one union representative joins the group that is carrying out the assessment to ensure they are represented.

We maintained our all-Employee Share Incentive Plan, giving our people an opportunity to invest in our brand and share in any success. Participants receive a free matching share for every share purchased and are entitled to receive a dividend on their holding. As at 31 January 2019, 33% of our eligible employees participated in the plan.

## Directors' report (*continued*)

We have the AA Worksave Pension Plan which offers increased employer contribution rates if employees contribute more, and life assurance cover to support our people into their retirement. As at 1 January 2019, we had 2,246 employees in the AA Auto-Enrolment Plan, the Government's minimum pension requirement for workers.

### ***Developing a high-performance culture***

This year, we have brought all our learning and development courses and programmes under one roof, creating the AA Academy. This is part of our plan to transform the AA's culture from training to learning.

The Academy is open to all employees and uses an approach known as 70:20:10, where 70% of learning takes place on-the-job, 20% of learning comes from others, and 10% from formal training courses.

### ***Apprenticeships***

This year, we have embedded Evolve, our emerging talent programme. This programme includes 40 apprenticeship pathways, all of which are industry recognised qualifications, from level 2 up to level 7. Employees can participate in management, MBA, customer service, automotive, HR and project management apprenticeships with more options planned. We now have over 100 employees actively participating in apprenticeships, which is an increase of 800% from last year.

We initiated, developed and commenced delivery of a 15-month Institute of Leadership Development first-line manager programme for all of our performance leaders (c. 150 people), in our Roadside business. This programme will be complete in late 2019, when all attendees will have achieved a recognised qualification in leadership management at level 3. To date, we have delivered 740 delegate days and are halfway through the programme. In addition, a Group first-line manager programme was launched in November 2018 aimed at all first-line people managers. We offer training and development to all employees in the form of e-learning. Our mandatory learning modules are:

All employees:

- General Data Protection Regulation (GDPR)
- GDPR digital (if applicable)
- Information security
- Conflicts of interest
- Financial crime and anti-bribery
- Equality and diversity
- Treating customers fairly and conduct risk
- Stress and workplace wellbeing
- Health, safety and environment
- Whistleblowing
- Competition law

Patrols:

- Dynamic risk assessment
- IOSH manual handling
- Self-aid

Office employees:

- Workstation use and set up

Managers

- Absence management
- Recruitment process guide
- Performance management
- Disciplinary and grievances

## Directors' report (*continued*)

Our mandatory courses were completed 49,085 times. In addition, employees completed product assessments 2,394 times. External training was also delivered to 1,907 individuals.

### **Diversity**

To help deliver UNSDG 5 Gender Equality, we are committed to supporting diversity and creating an inclusive workplace where all our people feel valued and able to fulfil their potential.

Our people come from different backgrounds and cultures and we are committed to supporting diversity and creating an inclusive workplace where all people feel valued and able to fulfil their full potential.

The importance of diversity, equality and non-discrimination is highlighted in our Equality Policy and we are proud that this is demonstrated through our culture, where decisions are based on individual ability and potential in relation to the needs of the business.

In March 2019, in line with the gender pay gap reporting regulations, we reported a mean gender pay gap of 17.8% and a median gender pay gap of 23.2% both on the new Government Gender Pay Reporting website and on our own corporate website. These figures show a reduction from 18.8% and 26.6% respectively from the figures reported in March 2018, but with women still representing only 32% of our traditionally male dominated workforce across the Group, we acknowledge that there is still much to do in this area. Our gender pay gap summary, which can be found in both of the locations referenced above, outlines the reasons behind our figures and what we intend to do to close the gap further over time.

Over the past 12 months, in line with the commitments we made in last year's Gender Pay Report, we have focused our attention on our internal and external recruitment practices and the wider promotion of flexible working across the Group. Over the course of the next financial year, we aim to better understand any barriers to female career progression, particularly in relation to our patrol roles and will continue to work with external specialists to support the promotion of women in science, technology, engineering and mathematics (STEM) roles.

Our key controls to help us deliver an inclusive culture and diverse workforce are:

- An equality and diversity policy which applies throughout the AA and is provided to all employees during their induction training
- All our people being required to complete a mandatory equality and diversity module annually in order to ensure understanding and mitigate risk of non-compliance
- Should one of our people become disabled (mentally, physically, permanently or temporarily) during employment we have processes in place so that we are able to make every effort to adjust their environment to allow them to maximise their potential and remain a valued member of the AA team
- We monitor and seek to ensure a good balance of male and female employees throughout our Group (bearing in mind the male focus of patrols)
- We continue to build a supportive and flexible culture that enables us to develop and retain women
- We are members of the Disability Confident scheme, the Government's scheme to support disabled people in the workplace
- We have regular discussions with employees with disabilities to consider changes we can make to ensure their ongoing career development

## Directors' report (*continued*)

### **Anti-Corruption & Anti-Bribery**

We recognise that it is our responsibility to carry on our business and deliver our service with the utmost honesty and integrity. Our commitment is evident in the following policies and procedures which are reviewed frequently:

- Anti-Bribery and Allowable Gifts, Hospitality and Donations policies
- Mandatory anti-corruption and anti-bribery e-learning for all employees, distributed at induction and then on a scheduled basis throughout their career
- Anti-bribery risk is rated and held on every appropriate departmental risk register with controls. All registers are reviewed at regular intervals. An internal audit was carried out in financial year 2017 and all actions were completed shortly afterwards including face-to-face training where practical
- Financial Crime Policy reviewed and updated during the year. It reflects the AA values, our reputation for financial probity, professionalism and integrity, and recognises that the Group has a duty to protect its members and customers
- A fraud reporting inbox is monitored by our Fraud team
- A whistleblowing policy encourages employees to confidentially raise concerns internally so that these can be investigated in an independent, timely and effective manner. This helps us to ensure that our commitment to conducting our business with honesty and integrity is met. During the year, 16 cases were escalated for review by HR and the Executive Risk and Compliance Committee, all have been investigated and concluded. Some of the consistent themes included allegations regarding employee conduct, management behaviour, discrimination and performance management
- The Company Secretary team holds registers of Directors' interests and external appointments, situational and transactional conflicts of interest

Because of this approach we are pleased to report that we have received no enforcement action, fines, penalties or settlements in relation to corruption or bribery.

### **Safety**

We are dedicated to providing a sustainable, expert and dynamic service to our customers that demonstrates we care by delivering operational excellence through high standards of health, safety and environmental (HS&E) management. In line with our policy, we aim to continually improve our HS&E performance, always seeking to reduce any risks. We believe in always doing the right thing and in doing it safely, without unnecessary risk to people's health or to the environment. We are committed to helping deliver UNSDG 8, Decent Work and Economic Growth and this is central to our management of health and safety.

Health and safety is a principal risk to how we do business in a sustainable and responsible way. The safety of our people, our members, customers, suppliers, partners and anyone else who may come into contact with our service is of fundamental importance to us. The health and wellbeing of our people is critical to enable us to deliver the service our members and customers expect and deserve. To demonstrate this fundamental belief and commitment we are reporting this year's performance based on the principles of the Global Sustainability Standards Board Standard GRI:403:Occupational Health and Safety 2018.

### **Directors' confirmations**

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the group and company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group and company's auditors are aware of that information.

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

## Directors' report (*continued*)

### Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors of the ultimate parent company are responsible for the maintenance and integrity of the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Going concern

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

The Group has long-term contracts with a number of suppliers across different industries and its activities are highly cash generative. The Group's borrowings are long-term in nature and the Group had £20 million of cash and cash equivalents of which £12 million is freely available to use within the business. The Directors believe that the Group is well placed to manage its business risks successfully.

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

## **Directors' report (*continued*)**

### **Financial risk management**

Our financial risk management objectives and policies can be found in note 28.

### **Future developments**

The directors' comments on the future developments of the Company and Group are set out in the Strategic Report.

### **Dividend**

The Group did not pay a dividend (2018: the Group paid a dividend of £80m) during the year.

### **Events after the reporting period**

Details of events after the reporting period can be found in note 38.

On behalf of the Board

M Strickland  
Director

28 June 2019

Registered Office: Fanum House, Basing View, Basingstoke, Hampshire RG21 4EA  
Registered number: 5148845

# ***Independent auditors' report to the members of AA Intermediate Co Limited***

## **Report on the audit of the financial statements**

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### **Opinion**

In our opinion:

- AA Intermediate Co Limited's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 January 2019 and of the group's profit and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company statements of financial position as at 31 January 2019; the Consolidated income statement and Consolidated statement of comprehensive income, the Consolidated statement of cash flows, and the Consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### ***Independence***

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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### **Conclusions relating to going concern**

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

## ***Independent auditors' report to the members of AA Intermediate Co Limited (continued)***

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### **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

#### ***Strategic Report and Directors' Report***

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 January 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

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### **Responsibilities for the financial statements and the audit**

#### ***Responsibilities of the directors for the financial statements***

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements set out on page 21, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

#### ***Auditors' responsibilities for the audit of the financial statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

#### ***Use of this report***

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## ***Independent auditors' report to the members of AA Intermediate Co Limited (continued)***

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### **Other required reporting**

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#### **Companies Act 2006 exception reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Stuart Newman (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
28 June 2019

## Consolidated income statement

for the year ended 31 January

	Note	2019 £m	2018 £m
Revenue	2	960	947
Cost of sales		(390)	(356)
<b>Gross profit</b>		<b>570</b>	591
Administrative & marketing expenses		(353)	(278)
<b>Operating profit</b>	4	<b>217</b>	313
Finance costs	6	(167)	(167)
Finance income	7	-	1
<b>Profit before tax</b>		<b>50</b>	147
Tax expense	10	(10)	(31)
<b>Profit for the year</b>		<b>40</b>	116

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

## Consolidated statement of comprehensive income

for the year ended 31 January

	Note	2019 £m	2018 £m
<b>Profit for the year</b>		<b>40</b>	116
<b>Other comprehensive (expenditure)/income on items that may be reclassified to the income statement in subsequent years</b>			
Exchange differences on translation of foreign operations		-	(1)
Effective portion of changes in fair value of cash flow hedges		<b>(6)</b>	8
Tax effect	10	<b>1</b>	(3)
		<b>(5)</b>	4
<b>Other comprehensive income on items that will not be reclassified to the income statement in subsequent years</b>			
Remeasurement gains on defined benefit schemes	25	<b>30</b>	120
Tax effect	10	<b>(5)</b>	(21)
		<b>25</b>	99
<b>Total other comprehensive income</b>		<b>20</b>	103
<b>Total comprehensive income for the year</b>		<b>60</b>	219

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

## Consolidated statement of financial position

		as at 31 January	
	Note	2019 £m	2018 £m
<b>Non-current assets</b>			
Goodwill and other intangible assets	11	1,326	1,296
Property, plant and equipment	13	123	127
Investments in joint ventures and associates	14	5	6
Other receivables	16	-	3
Deferred tax assets	10	22	30
		<b>1,476</b>	1,462
<b>Current assets</b>			
Inventories	15	4	7
Trade and other receivables	16	179	173
Amounts owed by parent undertakings	18	1,214	1,214
Cash and cash equivalents	17	20	50
		<b>1,417</b>	1,444
Assets classified as held for sale	37	6	-
<b>Total assets</b>		<b>2,899</b>	2,906
<b>Current liabilities</b>			
Trade and other payables	19	(455)	(497)
Amount due to parent undertakings	18	(34)	(22)
Current tax payable		(2)	(10)
Provisions	22	(3)	(13)
		<b>(494)</b>	(542)
<b>Non-current liabilities</b>			
Borrowings and loans	20	(2,724)	(2,736)
Finance lease obligations	29	(12)	(16)
Defined benefit pension scheme liabilities	25	(218)	(240)
Provisions	22	(4)	(4)
Deferred consideration	19	(10)	(11)
		<b>(2,968)</b>	(3,007)
Liabilities classified as held for sale	37	(5)	-
<b>Total liabilities</b>		<b>(3,467)</b>	(3,549)
<b>Net liabilities</b>		<b>(568)</b>	(643)
<b>Equity</b>			
Share capital	23	-	-
Currency translation reserve	24	-	-
Cash flow hedge reserve	24	-	5
Retained earnings	24	(568)	(648)
<b>Total equity attributable to equity holders of the parent</b>		<b>(568)</b>	(643)

Signed for and on behalf of the Board on 28 June 2019 by

M Strickland  
Director

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

## Consolidated statement of changes in equity

### Attributable to the equity holders of the parent

	Share capital £m	Currency translation reserve £m	Cash flow hedge reserve £m	Retained earnings £m	Total £m
At 31 January 2017	-	1	2	(785)	(782)
Profit for the year	-	-	-	116	116
Other comprehensive income	-	(1)	5	99	103
Total comprehensive income	-	(1)	5	215	219
Other reserves	-	-	(2)	2	-
Dividends	-	-	-	(80)	(80)
<b>At 31 January 2018</b>	<b>-</b>	<b>-</b>	<b>5</b>	<b>(648)</b>	<b>(643)</b>
Profit for the year	-	-	-	40	40
Other comprehensive income	-	-	(5)	25	20
Total comprehensive income	-	-	(5)	65	60
IFRS 9 conversion (see note 36)	-	-	-	13	13
IFRS 9 conversion deferred tax impact (see note 36)	-	-	-	(2)	(2)
Share-based payments (see note 34)	-	-	-	4	4
<b>At 31 January 2019</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(568)</b>	<b>(568)</b>

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

## Consolidated statement of cash flows

for the year ended 31 January

	Note	2019 £m	2018 £m
Profit before tax		50	147
Amortisation, depreciation and impairment	11, 13	77	68
Net finance costs	6, 7	167	166
Difference between pension charge and cash contributions		2	(44)
Other adjustments to profit before tax		2	20
Working capital:			
Increase in trade and other receivables		(8)	(5)
Decrease in trade and other payables		(13)	(1)
Decrease in provisions		(11)	(13)
<b>Total working capital adjustments</b>		<b>(32)</b>	<b>(19)</b>
<b>Net cash flows from operating activities before tax</b>		<b>266</b>	<b>338</b>
Tax paid		(15)	(23)
<b>Net cash flows from operating activities</b>		<b>251</b>	<b>315</b>
<b>Investing activities</b>			
Capital expenditure		(80)	(63)
Proceeds from sale of fixed assets		13	18
Payment for acquisition of subsidiary, net of cash acquired		(13)	-
Dividends from joint ventures and associates		1	1
Interest received		-	1
<b>Net cash flows used in investing activities</b>		<b>(79)</b>	<b>(43)</b>
<b>Financing activities</b>			
Proceeds from borrowings		565	250
Issue costs on borrowings		(10)	(7)
Debt repayment premium and penalties		(17)	(11)
Settlement of interest rate hedges		(7)	-
Repayment of borrowings		(565)	(328)
Refinancing transactions		(34)	(96)
Interest paid on borrowings		(129)	(136)
Payment of finance lease capital		(35)	(41)
Payment of finance lease interest		(4)	(5)
Dividends paid		-	(80)
<b>Net cash flows from financing activities</b>		<b>(202)</b>	<b>(358)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(30)</b>	<b>(86)</b>
Cash and cash equivalents at 1 February	17	50	136
<b>Cash and cash equivalents at 31 January</b>	17	<b>20</b>	<b>50</b>

## Consolidated statement of cash flows (continued)

The cash flows from operating activities are stated net of cash outflows relating to exceptional items of £23m (2018: £29m). This relates to the cost of business and IT rationalisation and transformation of £16m (2018: £19m), conduct and regulatory costs of £2m (2018: £nil), legal disputes of £1m (2018: £nil), corporate transactions of £1m (2018: £nil), a net cash outflow from onerous property lease provisions in respect of vacant properties of £2m (2018: £2m) and costs of reimbursing customers who bought duplicate breakdown cover of £1m (2018: £8m).

Other adjustments to profit before tax inflow of £2m (2018: inflow of £20m) include impairment of goodwill £nil (2018: £27m), profit on sale of the Home Services business of £nil (2018: £6m), share-based payment charge of £4m (2018: £7m), profit on sale of fixed assets of £1m (2018 profit: £1m), credit for reversal of MVP share-based payment charge (see note 34) of £nil (2018: £7m) and credit on remeasurement of contingent consideration of £1m (2018: £nil).

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

## Notes to the consolidated financial statements

### 1 Basis of preparation and accounting policies

#### 1.1 General information

The consolidated financial statements for the year ended 31 January 2019 comprise the financial statements of AA Intermediate Co Limited ('the Company') and its subsidiaries (together referred to as 'the Group'). AA Intermediate Co Limited is a limited company incorporated and domiciled in England and Wales.

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

#### 1.2 Basis of preparation

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

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

##### a) Going concern

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

##### b) Basis of consolidation

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

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

#### 1.3 Accounting policies

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these group financial statements.

##### a) Interests in joint ventures and associates

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

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

### **1.3 Accounting policies (continued)**

#### **b) Foreign currencies**

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

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

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

#### **c) Business combinations and goodwill**

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

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

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

Any contingent consideration payable is recognised at fair value at the acquisition date, and subsequent changes to the fair value of the contingent consideration are taken to the income statement.

#### **d) Intangible assets**

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

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and impairment losses. Intangible assets with finite lives are amortised over their estimated useful economic lives. The only intangible assets with finite lives held by the Group are software and development costs.

#### **e) Software and development costs**

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

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

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

### **1.3 Accounting policies (continued)**

#### **f) Property, plant and equipment**

Land and buildings held for use in the production of goods and the provision of services or for administrative purposes are stated in the statement of financial position at cost or fair value for assets acquired in a business combination less any subsequent accumulated depreciation and impairment losses. If relevant conditions are met, borrowing costs are capitalised.

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

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

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

#### **g) Inventories**

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

#### **h) Financial instruments**

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. They are classified according to the substance of the contractual arrangements entered into. The Group recognises loss allowances for expected credit losses (ECLs) on relevant financial assets.

##### *Trade receivables*

Trade receivables are amounts due from customers for goods or services performed in the ordinary course of business. They are generally due for settlement within 30 days and are therefore all classified as current. Trade receivables are recognised at fair value and are subsequently held at amortised cost. The Group applies the IFRS 9 simplified approach to measuring ECLs which uses a lifetime expected loss allowance for all trade receivables.

##### *Trade payables*

Trade payables are not interest bearing and are recognised at fair value and are subsequently held at amortised cost.

##### *Cash and cash equivalents*

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

##### *Debt instruments*

Debt is initially recognised in the statement of financial position at fair value less transaction costs incurred directly in connection with the issue of the instrument. Debt issue fees in respect of the instrument, including premiums and discounts on issue, are capitalised at inception and charged to the income statement over the term of the instrument using the effective interest method. Remaining issue costs on debt are written off to the income statement when the debt is extinguished.

##### *Equity instruments (share capital issued by the Group)*

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

### **1.3 Accounting policies (*continued*)**

#### *Derivative financial instruments*

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

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

#### *Cash flow hedges*

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the cash flow hedge reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

In the same period or periods during which the hedged expected future cash flows affects profit or loss, the associated cumulative gain or loss on the hedged forecast transaction is removed from equity and recognised in the income statement.

When the hedging instrument is sold, expires, is terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

#### **i) Impairment of assets**

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

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

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

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

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

### **1.3 Accounting policies (continued)**

#### **j) Leases**

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

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

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

#### **k) Provisions and contingent liabilities**

A provision is required when the Group has a present legal or constructive obligation as a result of a past event and it is probable that settlement will be required of an amount that can be reliably estimated. Provisions are discounted where the impact is material. Material contingent liabilities are disclosed unless the transfer of economic benefits is remote. Contingent assets are only disclosed if an inflow of economic benefits is probable.

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

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

#### **l) Retirement benefit obligation**

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

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

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

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

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

For defined contribution schemes, the amounts recognised in the income statement are the contributions payable in the year.

### **1.3 Accounting policies (continued)**

#### **m) Revenue recognition**

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

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

Commission income from insurers external to the Group is recognised at the commencement of the period of risk on a point in time basis. Commission income for policies underwritten by the Group is deferred and recognised over the period of risk.

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

For all other revenue, this income is recognised on a point in time basis at the point of delivery of goods or on the provision of service, or over time where the service is provided over more than 1 day. This includes work which has not yet been fully invoiced, provided that it is considered to be fully recoverable.

The revenue recognition accounting policy was reviewed as part of the transition from IAS 18 to IFRS 15 and the Group determined that no change was needed.

#### **n) Insurance contracts**

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

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

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

#### **o) Exceptional items**

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

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

#### **p) Finance income and costs**

Finance costs comprise interest payable, finance charges on finance leases recognised in profit or loss using the effective interest method, amortisation of debt issue fees, unwinding of the discount on provisions (including the net defined benefit obligations) and unwinding of the discount on contingent consideration payable.

Finance income comprises interest receivable on funds invested.

### 1.3 Accounting policies (*continued*)

#### q) Taxation

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

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

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

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

#### r) Segmental analysis

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

#### s) Share-based payments

The Group operates a number of equity-settled share-based payment compensation plans for employees.

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

The grant date fair value of equity-settled share-based payment awards granted to employees is recognised as an employee cost, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true up for differences between expected and actual outcomes.

### 1.3 Accounting policies (*continued*)

#### t) Discontinued operations and disposals

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

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

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

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

#### u) Critical accounting estimates and judgements

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

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

The principal estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

##### *Retirement benefit obligation*

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

The following are other principal estimates and assumptions made by the Group, but which management believe do not have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

##### *Contingent consideration (see note 12)*

The Group calculates contingent consideration based on the probability-weighted payout approach. This approach involves estimating future cash flow scenarios and using management judgement to assess the likelihood of each scenario.

##### *Goodwill*

The Group tests goodwill for impairment annually. The recoverable amounts of cash generating units have been determined based on value-in-use calculations which require the use of estimates (see note 26). Management has prepared discounted cash flows based on the latest strategic plan.

##### *Share-based payments*

The Group has issued a number of share-based payment awards to employees during the year which are measured at fair value. Calculating the share-based payment charge for the year involves estimating the number of awards expected to vest, which in turn involves estimating the number of expected leavers over the vesting period and the extent to which non-market-based performance conditions will be met. Determining the fair value of an award with a market-based performance condition also involves factoring in the impact of the expected volatility of the share price.

##### *Intangibles*

The Group has significant software development programmes and there is judgement in relation to which programmes and costs to capitalise under IAS 38. Additionally, there is an estimate in respect of the future usage period of software on which the Group bases the useful economic life of related assets.

## 2 Segmental information and revenue disaggregation

In the prior year, the Group determined that it has two key segments – Roadside and Insurance. Roadside incorporates the previous Roadside Assistance and Driving Services segments. Head Office costs have been allocated to these two key segments as these costs principally directly support the operations of these segments. To assist readers of the accounts both the current and previous segments have been presented below.

The two reportable operating segments are therefore 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 programmes.
- *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.

	2019 £m	2018 £m
<b>Revenue</b>		
Roadside	841	813
Insurance	119	133
<b>Trading Revenue</b>	<b>960</b>	<b>946</b>
Exceptional revenue provision (see note 22)	-	1
<b>Group Revenue</b>	<b>960</b>	<b>947</b>
<b>Trading EBITDA</b>		
Roadside	285	322
Insurance	52	71
<b>Trading EBITDA</b>	<b>337</b>	<b>393</b>
Share-based payments (see note 34)	(4)	(7)
Contingent consideration remeasurement gain	1	-
Pension service charge adjustment	(5)	(10)
Amortisation and depreciation	(72)	(68)
<b>Operating profit before exceptional items</b>	<b>257</b>	<b>308</b>
Exceptional operating items (see note 5)	(40)	5
<b>Operating profit</b>	<b>217</b>	<b>313</b>
Net finance costs (see note 6 and 7)	(167)	(166)
<b>Profit before tax</b>	<b>50</b>	<b>147</b>

## 2 Segmental information and revenue disaggregation (continued)

All segments operate principally in the UK. Revenue by destination is not materially different from revenue 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.

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:

	2019 £m	2018 £m
<b>Revenue</b>		
Roadside Assistance	778	747
Insurance Services	119	133
Driving Services	63	66
<b>Trading Revenue</b>	<b>960</b>	946
Exceptional revenue provision (see note 22)	-	1
<b>Group Revenue</b>	<b>960</b>	947
<b>Trading EBITDA</b>		
Roadside Assistance	322	346
Insurance Services	62	79
Driving Services	17	22
Head Office costs	(64)	(54)
<b>Trading EBITDA</b>	<b>337</b>	393

2 Segmental information and revenue disaggregation (*continued*)

Reconciliation of new segmental analysis

Revenue

	Roadside		Insurance	
	2019 £m	2018 £m	2019 £m	2018 £m
<b>Former segment presentation</b>				
Roadside Assistance	778	747	-	-
Insurance Services	-	-	119	133
Driving Services	63	66	-	-
<b>Trading Revenue</b>	<b>841</b>	<b>813</b>	<b>119</b>	<b>133</b>

	Roadside		Insurance	
	2019 £m	2018 £m	2019 £m	2018 £m
<b>Former segment presentation</b>				
Roadside Assistance	322	346	-	-
Insurance Services	-	-	62	79
Driving Services	17	22	-	-
Head Office costs	(54)	(46)	(10)	(8)
<b>Trading EBITDA</b>	<b>285</b>	<b>322</b>	<b>52</b>	<b>71</b>
Share-based payments	(3)	(6)	(1)	(1)
Pension service charge adjustment	(4)	(8)	(1)	(2)
Contingent consideration remeasurement gain	1	-	-	-
Amortisation and depreciation	(66)	(63)	(6)	(5)
<b>Operating profit before exceptional items</b>	<b>213</b>	<b>245</b>	<b>44</b>	<b>63</b>

2 Segmental information and revenue disaggregation (*continued*)

Disaggregation of revenue:

	2019 £m	2018 £m
<b>Roadside:</b>		
<b>Consumer (B2C)</b>		
Insured contracts	482	471
Pay for use contracts <sup>1</sup>	48	46
<b>Business Services (B2B)</b>		
Insured contracts	36	37
Pay for use contracts <sup>1</sup>	178	164
<b>Roadside other</b>	<b>97</b>	95
<b>Total Roadside</b>	<b>841</b>	813
<b>Insurance:</b>		
Brokering activities	119	133
<b>Trading Revenue</b>	<b>960</b>	946

<sup>1</sup> Pay for use contracts relate to contracts that take into account the number of breakdowns.

Roadside B2C and B2B mostly consists of revenue from roadside membership subscriptions. The majority of brokering activities revenue relates to commission income from insurers external to the Group. For further detail on the Group's revenue streams see the Strategic Report section.

### 3 Adjusted performance measures

Management reviews the Group's results and performance both on a statutory and non-GAAP (non-statutory) basis. The Group's adjusted performance measures are non-GAAP (non-statutory) financial measures and are included in these accounts as they are key financial measures used by management to evaluate performance of business segments. The measures enable investors to more easily and consistently track the underlying operational performance of the Group and its business segments. Some of the measures are also required under our debt documents for debt covenant calculations.

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, contingent consideration remeasurement movements and tax expense.

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.

#### Reconciliation of Trading EBITDA to operating profit

Trading EBITDA is calculated as operating profit before adjustments as shown in the table below:

		<b>for the year ended 31 January</b>	
	Note	<b>2019 £m</b>	2018 £m
<b>Trading EBITDA</b>	2	<b>337</b>	393
Share-based payments	34	<b>(4)</b>	(7)
Contingent consideration remeasurement gain	2	<b>1</b>	-
Pension service charge adjustment	2	<b>(5)</b>	(10)
Amortisation and depreciation	11,13	<b>(72)</b>	(68)
Exceptional operating items	5	<b>(40)</b>	5
<b>Operating profit</b>	4	<b>217</b>	313

Trading EBITDA excludes discontinued operations and the effects of significant items of income and expenditure which may have an impact on the quality of earnings, such as restructuring costs, legal expenses and impairments when the impairment is the result of an isolated, non-recurring event. It also excludes the effects of share-based payments, contingent consideration remeasurement gains or losses, defined benefit pension service charge adjustments, amortisation, depreciation and unrealised gains or losses on financial instruments.

These specific adjustments are made between the GAAP measure of operating profit and the non-GAAP measure of Trading EBITDA because Trading EBITDA is a performance measure required and clearly defined under the terms of our debt documents and is used for calculating our debt covenants. Given the significance of the Group debt, Trading EBITDA is a key measure for our bondholders and therefore management. In addition, the Group shows Trading EBITDA to enable investors and management to more easily and consistently track the underlying operational performance of the Group and its business segments.

#### 4 Operating profit

Operating profit is stated after charging:

	2019 £m	2018 £m
Amortisation of owned intangible assets (see note 11)	32	29
Impairment of software (see note 11)	5	-
Depreciation of owned tangible fixed assets (see note 13)	15	14
Depreciation of leased tangible fixed assets (see note 13)	25	25
Operating lease rentals payable – land and buildings	4	3

#### 5 Exceptional operating items

	2019 £m	2018 £m
Pension past service cost / (credit) (see note 25)	22	(34)
Duplicate breakdown cover	-	(1)
Impairment of goodwill (see note 26)	-	27
Impairment of intangible fixed assets (see note 11)	5	-
Other exceptional operating items	13	3
<b>Total exceptional items</b>	<b>40</b>	<b>(5)</b>

During the year the Group recognised a one-off pension past service cost of £22m as a result of Guaranteed Minimum Pension (GMP) equalisation (see note 25).

In the prior year, the Group recognised a one-off pension past service credit of £34m as a result of the benefit changes implemented (see note 25). 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.

In the current year, other exceptional operating items comprised Business and IT rationalisation and transformation costs of £7m, conduct and regulatory costs of £2m, legal disputes costs of £1m, corporate transaction costs of £1m, additional onerous property costs of £1m, gain on disposal of fixed assets of £1m and customer compensation costs of £2m.

Prior year exceptional revenue included £1m for duplicate breakdown cover provision release, see note 22 for further information.

In the prior year, other exceptional operating costs included £26m relating to Business and IT rationalisation and transformation costs, £1m gain on disposal of fixed assets, £9m improvement in onerous properties position, £6m gain on the disposal of the home services book and £7m credit for the reversal of share-based payments charge relating to the former executive chairman (see note 34).

Costs from the current year refinancing in July 2018 and the prior period refinancing in July 2017 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 6 and 21).

## 6 Finance costs

	2019 £m	2018 £m
Interest on external borrowings	127	132
Finance charges payable under finance leases	4	6
<b>Total ongoing cash finance costs</b>	<b>131</b>	138
Ongoing amortisation of debt issue fees	15	10
Contingent consideration movements	2	-
Net finance expense on defined benefit pension schemes	6	10
<b>Total ongoing non-cash finance costs</b>	<b>23</b>	20
Debt repayment premium and penalties	15	10
Transfer from cash flow hedge reserve for extinguishment of cash flow hedge	(8)	(2)
Debt issue fees immediately written off following repayment of borrowings (see note 21)	6	1
<b>Exceptional finance costs</b>	<b>13</b>	9
<b>Total finance costs</b>	<b>167</b>	167

Within interest on external borrowings is £3m (2018: £7m) of interest charged on the Senior Term Facility and £4m (2018: £9m) charged in relation to the interest rate swaps used to hedge the variable element of the Senior Term Facility (see note 20).

During the year, the Group repaid £300m of Class A3 notes. As a result, the Group incurred an early repayment penalty of £15m.

During the year, £6m (2018: £1m) of amortised debt issue fees were immediately written off following the refinancing.

During the year, the Group also repaid £250m (2018: £98m) of the Senior Term Facility, and transferred the £8m gain (2018: £2m gain) on the fair value of the cash flow hedges related to the repayment to the income statement.

During the prior year the Group repaid Class A1 notes of £175m and Class A4 notes of £55m. As a result, the Group incurred an early repayment penalty of £10m.

## 7 Finance income

	2019 £m	2018 £m
Interest receivable	-	1
<b>Total finance income</b>	<b>-</b>	1

**8 Employee costs**

	2019 £m	2018 £m
Wages and salaries	245	241
Social security costs	26	25
Other pension costs	30	26
Share-based payments expense	4	7
	<b>305</b>	299

The pension past service cost of £22m (2018: credit of £34m) is excluded from retirement benefit costs above (see note 25).

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

	2019	2018
Operational	6,214	6,028
Management and administration	1,180	1,149
	<b>7,394</b>	7,177

**9 Directors' remuneration**

	2019 £m	2018 £m
Directors' remuneration	2	2
Contributions to money purchase pension schemes	-	-
Compensation for loss of office	-	-
Aggregate remuneration in respect of qualifying services	2	2
Members of defined benefit pension schemes	1	2

The amounts paid in respect of the highest paid director were as follows:

Remuneration	1	1
Contributions to money purchase pension schemes	-	-

The accrued pension of the highest paid director was £nil at 31 January 2019 (2018: £nil). The highest paid director had contributions to a money purchase pension plan of £56,160 (2018: £56,160).

## 10 Tax

The major components of the income tax expense are:

	2019 £m	2018 £m
<b>Consolidated income statement</b>		
<b>Current income tax</b>		
Current income tax charge	8	23
	<b>8</b>	<b>23</b>
<b>Deferred tax</b>		
Effect of tax rate change on opening balances	-	(1)
Origination and reversal of temporary differences	4	10
Adjustment in respect of prior years	(2)	(1)
	<b>2</b>	<b>8</b>
<b>Tax expense in the income statement</b>	<b>10</b>	<b>31</b>

	2019 £m	2018 £m
<b>Consolidated statement of comprehensive income</b>		
Tax on the effective portion of changes in fair value of cash flow hedges	(1)	3
Tax on remeasurements of defined benefit pension liability	5	21
<b>Income tax charged directly to other comprehensive income</b>	<b>4</b>	<b>24</b>

	2019 £m	2018 £m
<b>Consolidated statement of changes in equity</b>		
Tax on implementation of IFRS 9	2	-
<b>Deferred tax recognised directly in equity</b>	<b>2</b>	<b>-</b>

## 10 Tax (continued)

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

	2019 £m	2018 £m
Profit before tax	50	147
Tax at rate of 19.00% (2018: 19.16%)	10	28
Adjustments relating to prior year	(2)	(1)
Rate change adjustment on temporary differences	-	(1)
Expenses not deductible for tax purposes:		
- Share based payments	1	(1)
- Impairment of goodwill	-	5
- Other non-deductible expenses / non-taxed income	1	1
<b>Income tax expense reported in the consolidated income statement at effective rate of 20.0% (2018: 19.1%)</b>	<b>10</b>	<b>31</b>

The effective rate disclosed is adjusted for non-recurring or exceptional material items. In the current year, there were no such items. In the prior year, adjusting items included 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 the impairment of goodwill.

### Deferred tax by type of temporary difference

	Consolidated statement of financial position		Consolidated income statement	
	2019 £m	2018 £m	2019 £m	2018 £m
Accelerated depreciation for tax purposes	9	8	(1)	-
Revaluations of land and buildings to fair value	(1)	(1)	-	-
Rollover relief	(2)	(2)	-	-
Pension	3	6	(2)	5
Revaluation of cash flow hedges	-	2	3	(1)
Short-term temporary differences	4	5	(1)	2
Losses available for offsetting against future taxable income	9	12	3	2
<b>Deferred tax expense</b>			<b>2</b>	<b>8</b>
<b>Net deferred tax assets</b>	<b>22</b>	<b>30</b>		

Reconciliation of net deferred tax assets

	2019 £m	2018 £m
<b>At 1 February</b>	<b>30</b>	<b>62</b>
Tax expense recognised in the income statement	(2)	(8)
Tax expense recognised in other comprehensive income	(4)	(24)
Deferred tax recognised directly in equity	(2)	-
<b>At 31 January</b>	<b>22</b>	<b>30</b>

## **10 Tax (continued)**

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

The UK corporation tax rate will reduce from 19% to 17% on 1 April 2020. These rates have been substantively enacted at the statement of financial position date and have therefore been included in the deferred tax calculations.

Deferred tax has been recognised at an overall rate of 17.2% at 31 January 2019 (2018: 17.3%). The rate has been adjusted to reflect the expected reversal profile of the Group's temporary differences.

The Group has carried forward tax losses which arose in the UK of £52m (deferred tax equivalent £9m) (2018: £66m tax losses, deferred tax equivalent £12m) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. A deferred tax asset has been recognised in respect of these losses.

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.

**11 Goodwill and other intangible assets**

	Goodwill £m	Software £m	Total £m
<b>Cost</b>			
At 31 January 2017	1,172	197	1,369
Additions	25	51	76
<b>At 31 January 2018</b>	<b>1,197</b>	<b>248</b>	<b>1,445</b>
Additions	-	66	66
Disposals	-	(66)	(66)
<b>At 31 January 2019</b>	<b>1,197</b>	<b>248</b>	<b>1,445</b>
<b>Amortisation and impairment</b>			
At 31 January 2017	-	93	93
Amortisation	-	29	29
Impairment	27	-	27
<b>At 31 January 2018</b>	<b>27</b>	<b>122</b>	<b>149</b>
Amortisation	-	32	32
Impairment	-	5	5
Disposals	-	(67)	(67)
<b>At 31 January 2019</b>	<b>27</b>	<b>92</b>	<b>119</b>
<b>Net book value</b>			
<b>At 31 January 2019</b>	<b>1,170</b>	<b>156</b>	<b>1,326</b>
At 31 January 2018	1,170	126	1,296

Within software, £58m (2018: £32m) relates to assets under construction which are not amortised.

Software additions comprise £11m (2018: £12m) in relation to internally developed assets and £58m (2018: £39m) in relation to separately acquired assets.

There were £nil goodwill additions in the year (2018: £25m additions relating to the acquisition of Used Car Sites Limited).

During the year, there was an impairment charge against software assets of £5m (2018: £nil). This related to the impairment of certain software assets as it was determined during the year that these particular assets would no longer be used.

During the prior year, there was an impairment charge against goodwill of £27m (see note 26).

Amortisation costs are included within administrative & marketing expenses in the income statement.

## **12 Business combinations**

### **Acquisitions during the year ended 31 January 2019**

There were no acquisitions during the year ended 31 January 2019.

### **Acquisitions during the year ended 31 January 2018**

On 1 October 2017, the Group assumed control of Used Car Sites Limited (trading as AA Cars), 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 was 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 deferred consideration due in more than one year which was calculated based on the probability-weighted payout approach. The range of potential contingent consideration was £nil-£21m which was factored into the assessment of goodwill arising on acquisition. No subsequent adjustments were made during the 2019 financial year to the goodwill arising on this acquisition.

### 13 Property, plant and equipment

	Freehold Land & Buildings £m	Long Leasehold Land & Buildings £m	Vehicles £m	Plant & equipment £m	Total £m
<b>Cost</b>					
At 31 January 2017	24	7	98	90	219
Additions	-	-	40	14	54
Disposals	-	-	(34)	-	(34)
<b>At 31 January 2018</b>	<b>24</b>	<b>7</b>	<b>104</b>	<b>104</b>	<b>239</b>
Additions	-	5	34	7	46
Disposals	-	-	(25)	(25)	(50)
<b>At 31 January 2019</b>	<b>24</b>	<b>12</b>	<b>113</b>	<b>86</b>	<b>235</b>
<b>Depreciation and impairment</b>					
At 31 January 2017	7	3	26	52	88
Charge for the year	1	1	25	12	39
Disposals	-	-	(15)	-	(15)
<b>At 31 January 2018</b>	<b>8</b>	<b>4</b>	<b>36</b>	<b>64</b>	<b>112</b>
Charge for the year	-	-	26	14	40
Disposals	-	-	(15)	(25)	(40)
<b>At 31 January 2019</b>	<b>8</b>	<b>4</b>	<b>47</b>	<b>53</b>	<b>112</b>
<b>Net book value</b>					
<b>At 31 January 2019</b>	<b>16</b>	<b>8</b>	<b>66</b>	<b>33</b>	<b>123</b>
At 31 January 2018	16	3	68	40	127

The net book amount of vehicles includes £66m (2018: £68m) held under finance lease agreements. The accumulated depreciation on these assets is £45m (2018: £36m).

The net book amount of other assets includes £nil (2018: £nil) in respect of plant & equipment held under finance lease agreements. The accumulated depreciation on these assets is £8m (2018: £8m).

Within plant and equipment £4m (2018: £9m) and within long leasehold land and buildings £5m (2018: £nil) relates to assets under construction which are not depreciated.

## 14 Investments in joint ventures and associates

	2019			2018		
	Joint ventures £m	Associates £m	Total £m	Joint ventures £m	Associates £m	Total £m
At 1 February	2	4	6	2	4	6
Dividend received	(1)	-	(1)	-	-	-
<b>At 31 January</b>	<b>1</b>	<b>4</b>	<b>5</b>	<b>2</b>	<b>4</b>	<b>6</b>

The joint ventures of the Group which are indirectly held are detailed below. Except where otherwise stated, the share capital of each joint venture consists of only ordinary shares.

Company	Country of registration	Nature of business
AA Law Limited (49% interest held) <sup>1</sup>	England	Insurance
Intelematics Europe Limited (32% interest held) <sup>2</sup>	England	Roadside
Motoriety UK Limited (in administration) (50% interest held)	England	Roadside services

<sup>1</sup> The Group exercises joint control over AA Law Limited through its equal representation on the Board. AA Law Limited has A and B ordinary shares.

<sup>2</sup> The Group exercises joint control over Intelematics Europe Limited through its joint influence over key decision-making. Intelematics Europe Limited has A and B ordinary shares.

The associates of the Group are listed below. Except where otherwise stated, the share capital of each associate consists of only ordinary shares.

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

## 15 Inventories

	2019 £m	2018 £m
Finished goods	4	7
	4	7

**16 Trade and other receivables**

	2019 £m	2018 £m
<b>Current</b>		
Trade receivables	141	135
Deferred consideration	3	3
Prepayments	14	13
Contract assets	17	18
Other receivables	4	4
	179	173
<b>Non-current</b>		
Deferred consideration	-	3

Trade receivables include £80m (2018: £75m) relating to amounts due from insurance broking customers.

Non-current receivables of £nil (2018: £3m) relate to deferred consideration following the disposal of the consumer home services business.

**17 Cash and cash equivalents**

	2019 £m	2018 £m
Cash at bank and in hand – available	12	42
Cash at bank and in hand – restricted	8	8
	20	50

Cash at bank and in hand includes £8m (2018: £8m) held by and on behalf of the Group's insurance businesses which are subject to contractual or regulatory restrictions. These amounts are not readily available to be used for other purposes within the Group.

**18 Amounts owed by/to parent undertakings**

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

## 19 Trade and other payables

	2019 £m	2018 £m
<b>Current</b>		
Trade payables	79	100
Other taxes and social security costs	9	16
Accruals	58	56
Deferred income	229	233
Deferred consideration	2	15
Other payables	29	29
Obligations under finance lease agreements (note 29)	49	48
	455	497
<b>Non-current</b>		
Deferred consideration	10	11

Trade payables include £63m (2018: £66m) relating to amounts due to underwriters in respect of insurance broking activities.

Deferred income primarily relates to roadside subscriptions deferred on a time apportionment basis. Of the revenue recognised in the year, £221m (2018: £226m) was included within deferred income at the beginning of the year.

Current and non-current deferred consideration relates to the acquisition of Used Car Sites Limited (see notes 12 and 26).

Included in deferred income is £15m (2018: £15m) which will be released over a period more than 12 months after the statement of financial position date.

## 20 Borrowings and loans

	2019 £m	2018 £m
Borrowings (see note 21)	2,724	2,727
Interest rate swap used for hedging (see note 27)	-	9
	2,724	2,736

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 £nil (2018: £8m) and the liability is £nil (2018: £17m).

## 21 Borrowings

	Expected maturity date	Interest rate	Principal £m	Issue costs £m	Amortised issue costs £m	<b>Total at 31 January 2019 £m</b>	Total at 31 January 2018 £m
Senior Term Facility	31 July 2021	5.71%	-	-	-	-	249
Class A2 notes	31 July 2025	6.27%	500	(1)	1	<b>500</b>	500
Class A3 notes	31 July 2020	4.25%	200	(1)	1	<b>200</b>	499
Class A5 notes	31 January 2022	2.88%	700	(47)	17	<b>670</b>	671
Class A6 notes	31 July 2023	2.75%	250	(4)	1	<b>247</b>	246
Class A7 notes	31 July 2024	4.88%	550	(8)	1	<b>543</b>	-
Class B2 notes	31 July 2022	5.50%	570	(16)	10	<b>564</b>	562
		<b>4.52%</b>	<b>2,770</b>	<b>(77)</b>	<b>31</b>	<b>2,724</b>	<b>2,727</b>

At 31 January 2019, all 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 2019.

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

	Senior Term Facility £m	Class A2 £m	Class A3 £m	Class A5 £m	Class A6 £m	Class A7 £m	Class B2 £m	Total £m
As at 1 February 2018	250	500	500	700	250	-	570	<b>2,770</b>
Issue / repayment date:								
17 July 2018	(250)	-	(300)	-	-	550	-	-
<b>Total</b>	<b>-</b>	<b>500</b>	<b>200</b>	<b>700</b>	<b>250</b>	<b>550</b>	<b>570</b>	<b>2,770</b>

## **21 Borrowings (Continued)**

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

All of the Class A notes are secured by first ranking security in respect of the undertakings and assets of the Company and its subsidiaries. The Class A facility security over the 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 Group, AA Mid Co Limited. The Company can only pay a dividend when certain Net Debt to Trading EBITDA and cash flow criteria are met.

Any voluntary repayment of the Class B2 notes 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, Class A6 and Class A7 notes which can be settled without penalty within three months, two months and three months respectively of the expected maturity date.

On 17 July 2018, the Group issued £550m of Class A7 notes at an interest rate of 4.88%. £8m of costs associated with the issue of the A7 notes were capitalised. This consisted of £2m of premium and £6m of new issue fees.

From the proceeds of the Class A7 notes, the Group repaid £300m of Class A3 notes incurring a penalty of £15m and the £250m Senior Term Facility (STF). In line with the Group accounting policy, this was accounted for as an extinguishment of debt and therefore issue costs associated with the Class A3 notes and the STF have been written off totalling £3m.

On 17 July 2018, the Group also entered into a new undrawn £200m forward starting Senior Term Facility due in July 2023 in order to secure committed funding to be able to redeem the £200m of Class A3 notes left outstanding at their effective maturity on 31 July 2020. In addition, a new working capital facility of £60m (together with a £15m accordion facility), was put in place to replace the previous £75m working capital facility, with a maturity to 31 July 2023 and with the same margin as the previous facility. In line with group policy the fees associated with this of £3m were written off, as both facilities were undrawn.

Following the repayment of the STF, all but one of the outstanding interest rate swaps scheduled to conclude after 31 July 2018 were settled for £7m. One future dated interest rate swap was left in place to cover the undrawn STF. Following the settlement of the interest rate swaps and the repayment of the original STF, there is no longer an interest rate hedge on the original STF so the cash flow hedge reserve was released back through other comprehensive income.

On 30 July 2018, the Group drew down £15m of the working capital facility. This was repaid on 29 August 2018.

All of the Group's loan notes are listed on the Irish Stock Exchange.

In order to comply with the requirements of the Class A notes, the Group is required to maintain the Class A free cash flow to debt service ratio in excess of 1.35x. The actual Class A free cash flow to debt service ratio as at 31 January 2019 was 2.6x (2018: 3.3x). The Class B2 notes require the Group to maintain the Class B2 free cash flow to debt service ratio in excess of 1x. The actual Class B2 free cash flow to debt service ratio as at 31 January 2019 was 1.9x (2018: 2.4x).

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 restrictions 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.

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.

## 22 Provisions and contingent liabilities

	Property leases £m	Restructuring £m	Duplicate breakdown cover £m	Other £m	Total £m
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
<b>At 31 January 2018</b>	<b>6</b>	<b>10</b>	<b>1</b>	<b>-</b>	<b>17</b>
Utilised during the year	(2)	(9)	(1)	-	(12)
Released during the year	-	(1)	-	-	(1)
Charge for the year	1	-	-	2	3
<b>At 31 January 2019</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>7</b>
Current	1	-	-	2	3
Non-current	4	-	-	-	4
<b>At 31 January 2019</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>7</b>
Current	2	10	1	-	13
Non-current	4	-	-	-	4
At 31 January 2018	6	10	1	-	17

The property leases provision primarily relates to dilapidations. These sums are mainly expected to be paid out over the next 10 years; however, it will take 35 years to fully pay out all amounts provided for. The provision has been calculated on a pre-tax discounted basis. On 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. This was paid during the 2019 financial year.

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

Other provisions relate to anticipated compensation costs for poorly handled complaints. During the 2019 financial year, the Group identified that some historic customer complaints were not dealt with in line with industry standards, thereby entitling affected customers to compensation. This compensation is expected to be paid out during the next year.

In the 2017 financial year, the Group 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 who also held AVAs (added value accounts) with the Group's banking partners. Whilst 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, the Group identified a group of customers for whom the benefit of holding both forms of cover was not clear. The Group proposed a programme of remediation for them which has the support of the regulatory authority. During the 2018 financial year, £5m was paid out in respect of premiums previously paid for breakdown cover and £3m in respect of interest payable on those premiums while £1m was released. The remaining amount of £1m was paid out during the 2019 financial year.

## 22 Provisions and contingent liabilities (continued)

### Litigation – update on Mr Mackenzie's claim

As reported in the prior year accounts, the former Executive Chairman, Bob Mackenzie, who was dismissed for gross misconduct on 1 August 2017, had on 6 March 2018 issued a claim for substantial damages against AA plc, its subsidiary (Automobile Association Developments Limited) (together, 'the Companies') and personally against a number of their directors (existing and former) and the former Company Secretary.

In November 2018, Mr Mackenzie's claim against all the directors and the former Company Secretary was dismissed in full and he was ordered to pay their costs to be assessed by the Court if not agreed. Mr Mackenzie's claim against the Companies has not progressed materially, nor has he provided the Companies with full details of his alleged loss. The Companies continue to maintain their counterclaim for the reimbursement of previous bonuses paid to Mr Mackenzie. The Board assumes for the purpose of these financial statements that Mr Mackenzie will proceed with the claim against the Companies but maintains that it is not necessary for the Group to make a financial provision as it expects the defence will prevail.

**23 Share capital**

	2019 £	2018 £
<b>Allotted, called up and fully paid</b>		
20 ordinary shares of £1 each	20	20
	<b>20</b>	<b>20</b>

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

**24 Reserves**

	Currency translation reserve £m	Cash flow hedge reserve £m	Retained earnings £m	Total £m
At 31 January 2017	1	2	(785)	(782)
Retained profit for the year	-	-	116	116
Dividends paid	-	-	(80)	(80)
Other reserves	-	(2)	2	-
<b>Other comprehensive income:</b>				
Exchange differences on translation of foreign operations	(1)	-	-	(1)
Remeasurement gains on defined benefit schemes (note 25)	-	-	120	120
Tax effect of remeasurement gains on defined benefit schemes (note 10)	-	-	(21)	(21)
Effective portion of changes in fair value of cash flow hedges	-	8	-	8
Tax effect of effective portion of changes in fair value of cash flow hedges (note 10)	-	(3)	-	(3)
<b>At 31 January 2018</b>	<b>-</b>	<b>5</b>	<b>(648)</b>	<b>(643)</b>
Retained profit for the year	-	-	40	40
IFRS 9 conversion	-	-	13	13
IFRS 9 conversion deferred tax impact	-	-	(2)	(2)
Share-based payments (note 34)	-	-	4	4
<b>Other comprehensive income:</b>				
Remeasurement gains on defined benefit schemes (note 25)	-	-	30	30
Tax effect of remeasurement gains on defined benefit schemes (note 10)	-	-	(5)	(5)
Effective portion of changes in fair value of cash flow hedges	-	(6)	-	(6)
Tax effect of effective portion of changes in fair value of cash flow hedges (note 10)	-	1	-	1
<b>At 31 January 2019</b>	<b>-</b>	<b>-</b>	<b>(568)</b>	<b>(568)</b>

## **24 Reserves (continued)**

### *Cash flow hedge reserve*

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

### *Dividends*

In the year ended 31 January 2019, no dividends were paid.

In the year ended 31 January 2018, total dividends of £4m per qualifying ordinary share were paid (based on 20 shares at the time of distribution). Dividends were paid from the unconsolidated distributable reserves of AA Intermediate Co Limited 'the Company'.

As at 31 January 2019, the Company had distributable reserves of £20m (2018: £23m). The dividend paid during the prior year was paid following receipt of a dividend of £80m from a subsidiary undertaking, AA Acquisition Co Limited.

## **25 Pensions**

The Group operates two funded defined benefit pension schemes: the AA UK Pension Scheme (AAUK) and the AA Ireland Pension Scheme (AAI). The assets of the schemes are held separately from those of the Group in independently administered funds. The AAUK scheme has closed final salary and Career Average Revalued Earnings (CARE) sections. CARE provided for benefits to accrue on an average salary basis. From 2004 to 2016, new entrants to the AAUK scheme accrued benefits in the CARE section but the AAUK scheme was closed to new entrants from 1 October 2016. On 1 July 2017, accrual ceased under the final salary sections and members were moved to the CARE section for future accrual of benefits. In addition, from April 2018 pension indexation in the CARE section was changed and is now based on CPI inflation, rather than RPI inflation. During the 2017 financial year and following the sale of the Irish business by the Group, AA Corporation Limited, a UK subsidiary of the Group, became the sponsor of the AAI scheme. The Group also operates an unfunded post-retirement Private Medical Plan (AAPMP), which is treated as a defined benefit scheme and is not open to new entrants.

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

The AAUK and AAI schemes are subject to full actuarial valuations every three years using assumptions agreed between the trustee of each scheme and the Group. The purpose of this valuation is to design a funding plan to ensure that the pension scheme has sufficient assets available to meet the future payment of benefits to scheme members.

The valuation of liabilities for funding purposes differs from the valuation for accounting purposes, mainly due to the different assumptions used and changes in market conditions between different valuation dates. For funding valuation purposes, the assumptions used to value the liabilities are agreed between the trustee and the Group with the discount rate, for example, being based on a bond yield plus a margin based on the assumed rate of return on scheme assets. For accounting valuation purposes the assumptions used to value the liabilities are determined in accordance with IAS 19, with the discount rate, for example, being based on high-quality (AA rated) corporate bonds.

The valuations have been based on a full assessment of the liabilities of the schemes which have been updated where appropriate to 31 January 2019 by independent qualified actuaries.

## 25 Pensions (continued)

The amounts recognised in the statement of financial position are as follows:

	As at 31 January 2019			Total £m
	AAUK £m	AAI £m	AAPMP £m	
Present value of the defined benefit obligation in respect of pension plans	(2,409)	(50)	(45)	(2,504)
Fair value of plan assets	2,242	44	-	2,286
<b>Deficit</b>	<b>(167)</b>	<b>(6)</b>	<b>(45)</b>	<b>(218)</b>

	As at 31 January 2018			Total £m
	AAUK £m	AAI £m	AAPMP £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
<b>Deficit</b>	<b>(188)</b>	<b>(7)</b>	<b>(45)</b>	<b>(240)</b>

The decrease in the deficit is primarily due to changes in the financial assumptions over the period (in particular an increase in the discount rates) and demographic assumptions (reflecting the latest outlook for mortality rates), and Group contributions paid into the schemes. This was partially offset by the performance of plan assets being below expectations and recognition of the one-off past service cost discussed below.

During the year the Group recognised a one-off cost of £22m as a result of Guaranteed Minimum Pension (GMP) equalisation. This is a past service cost that pension schemes that had “contracted out” of the State Earnings Related Pension Scheme must now recognise following the Lloyds Banking Group judgement in October 2018. This judgement requires the equalisation of male and female members’ benefits for the effect of unequal GMPs.

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.

The last triennial valuation for the AAUK scheme was as at 31 March 2016 and was completed in June 2017, where the Group agreed 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.

Using an inflation assumption of 3.2% and a discount rate assumption of 2.5%, the present value of the future deficit reduction contributions has been calculated. Based on these assumptions, the Group expects the present value of deficit reduction contributions to exceed the IAS 19 deficit. The Group notes that, in the event that a surplus emerges, it would have an unconditional right to a refund of the surplus assuming the gradual settlement of AAUK scheme liabilities over time until all members have left the scheme.

The last triennial valuation for the AAI scheme was as at 31 December 2016, the result of which was an increase in the going concern deficit with the contribution level remaining the same. The Group made deficit reduction contributions of £2m in the year ended 31 January 2019 and will continue to make annual deficit reduction contributions, increasing with inflation, until December 2023 or until an alternative agreement is signed with the trustees. The next triennial valuation of the AAI scheme will take place as at 31 December 2019.

In total, the Group is currently committed to pay £21m in ongoing employer contributions and £25m in deficit reduction employer contributions to its defined benefit plans (AAUK and AAI) in the year ending 31 January 2020.

The Group recognised a charge in the income statement of £6m in respect of defined contribution pension scheme costs in the year (2018: £3m).

**25 Pensions (continued)**

**Total Group schemes**

	Assets £m	Liabilities £m	Income statement £m	Other 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)	-
<b>Amounts recognised in the income statement</b>	<b>61</b>	<b>(68)</b>	<b>(7)</b>	-
Effect of changes in financial assumptions	-	(56)	-	(56)
Effect of changes in demographic assumptions	-	65	-	65
Effect of experience adjustment	-	38	-	38
Return on plan assets excluding interest income	73	-	-	73
<b>Amounts recognised in the statement of comprehensive income</b>	<b>73</b>	<b>47</b>	-	<b>120</b>
<b>Foreign exchange gain/(loss)</b>	<b>1</b>	<b>(1)</b>	-	-
Contribution from scheme participants	1	(1)	-	-
Benefits paid from scheme assets	(64)	64	-	-
Ongoing employer contributions	21	-	-	-
Deficit reduction employer contributions	21	-	-	-
<b>Movements through cash</b>	<b>(21)</b>	<b>63</b>	-	-
<b>Balance at 31 January 2018</b>	<b>2,346</b>	<b>(2,586)</b>	-	-
Current service cost	-	(25)	(25)	-
Past service cost	-	(22)	(22)	-
Interest on defined benefit scheme assets/(liabilities)	59	(65)	(6)	-
<b>Amounts recognised in the income statement</b>	<b>59</b>	<b>(112)</b>	<b>(53)</b>	-
Effect of changes in financial assumptions	-	99	-	99
Effect of changes in demographic assumptions	-	15	-	15
Effect of experience adjustment	-	(15)	-	(15)
Return on plan assets excluding interest income	(69)	-	-	(69)
<b>Amounts recognised in the statement of comprehensive income</b>	<b>(69)</b>	<b>99</b>	-	<b>30</b>
Contribution from scheme participants	1	(1)	-	-
Benefits paid from scheme assets	(96)	96	-	-
Ongoing employer contributions	21	-	-	-
Deficit reduction employer contributions	24	-	-	-
<b>Movements through cash</b>	<b>(50)</b>	<b>95</b>	-	-
<b>Balance at 31 January 2019</b>	<b>2,286</b>	<b>(2,504)</b>	-	-

**25 Pensions (continued)**

**AAUK scheme**

	Assets £m	Liabilities £m	Income statement £m	Other comprehensive income £m
Balance at 1 February 2017	2,190	(2,515)	-	-
Current service cost	-	(31)	(31)	-
Past service gain	-	34	34	-
Interest on defined benefit scheme assets/(liabilities)	60	(68)	(8)	-
<b>Amounts recognised in the income statement</b>	<b>60</b>	<b>(65)</b>	<b>(5)</b>	<b>-</b>
Effect of changes in financial assumptions	-	(54)	-	(54)
Effect of changes in demographic assumptions	-	59	-	59
Effect of experience adjustment	-	25	-	25
Return on plan assets excluding interest income	72	-	-	72
<b>Amounts recognised in the statement of comprehensive income</b>	<b>72</b>	<b>30</b>	<b>-</b>	<b>102</b>
<b>Foreign exchange gain/(loss)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Contribution from scheme participants	1	(1)	-	-
Benefits paid from scheme assets	(60)	60	-	-
Ongoing employer contributions	21	-	-	-
Deficit reduction employer contributions	19	-	-	-
<b>Movements through cash</b>	<b>(19)</b>	<b>59</b>	<b>-</b>	<b>-</b>
<b>Balance at 31 January 2018</b>	<b>2,303</b>	<b>(2,491)</b>	<b>-</b>	<b>-</b>
Current service cost	-	(25)	(25)	-
Past service cost	-	(22)	(22)	-
Interest on defined benefit scheme assets/(liabilities)	58	(63)	(5)	-
<b>Amounts recognised in the income statement</b>	<b>58</b>	<b>(110)</b>	<b>(52)</b>	<b>-</b>
Effect of changes in financial assumptions	-	100	-	100
Effect of changes in demographic assumptions	-	15	-	15
Effect of experience adjustment	-	(15)	-	(15)
Return on plan assets excluding interest income	(69)	-	-	(69)
<b>Amounts recognised in the statement of comprehensive income</b>	<b>(69)</b>	<b>100</b>	<b>-</b>	<b>31</b>
Contribution from scheme participants	1	(1)	-	-
Benefits paid from scheme assets	(93)	93	-	-
Ongoing employer contributions	20	-	-	-
Deficit reduction employer contributions	22	-	-	-
<b>Movements through cash</b>	<b>(50)</b>	<b>92</b>	<b>-</b>	<b>-</b>
<b>Balance at 31 January 2019</b>	<b>2,242</b>	<b>(2,409)</b>	<b>-</b>	<b>-</b>

25 Pensions (*continued*)

AAI scheme

	Assets £m	Liabilities £m	Income statement £m	Other comprehensive income £m
Balance at 1 February 2017	42	(53)	-	-
Current service cost	-	-	-	-
Past service gain	-	-	-	-
Interest on defined benefit scheme assets/(liabilities)	1	(1)	-	-
<b>Amounts recognised in the income statement</b>	<b>1</b>	<b>(1)</b>	<b>-</b>	<b>-</b>
Effect of changes in financial assumptions	-	(2)	-	(2)
Effect of changes in demographic assumptions	-	2	-	2
Effect of experience adjustment	-	2	-	2
Return on plan assets excluding interest income	1	-	-	1
<b>Amounts recognised in the statement of comprehensive income</b>	<b>1</b>	<b>2</b>	<b>-</b>	<b>3</b>
<b>Foreign exchange gain/(loss)</b>	<b>1</b>	<b>(1)</b>	<b>-</b>	<b>-</b>
Contribution from scheme participants	-	-	-	-
Benefits paid from scheme assets	(3)	3	-	-
Ongoing employer contributions	-	-	-	-
Deficit reduction employer contributions	1	-	-	-
<b>Movements through cash</b>	<b>(2)</b>	<b>3</b>	<b>-</b>	<b>-</b>
<b>Balance at 31 January 2018</b>	<b>43</b>	<b>(50)</b>	<b>-</b>	<b>-</b>
Current service cost	-	-	-	-
Past service cost	-	-	-	-
Interest on defined benefit scheme assets/(liabilities)	1	(1)	-	-
<b>Amounts recognised in the income statement</b>	<b>1</b>	<b>(1)</b>	<b>-</b>	<b>-</b>
Effect of changes in financial assumptions	-	(1)	-	(1)
Effect of changes in demographic assumptions	-	-	-	-
Effect of experience adjustment	-	-	-	-
Return on plan assets excluding interest income	-	-	-	-
<b>Amounts recognised in the statement of comprehensive income</b>	<b>-</b>	<b>(1)</b>	<b>-</b>	<b>(1)</b>
Contribution from scheme participants	-	-	-	-
Benefits paid from scheme assets	(2)	2	-	-
Ongoing employer contributions	-	-	-	-
Deficit reduction employer contributions	2	-	-	-
<b>Movements through cash</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>-</b>
<b>Balance at 31 January 2019</b>	<b>44</b>	<b>(50)</b>	<b>-</b>	<b>-</b>

**25 Pensions (continued)**

**AA PMP scheme**

	Assets £m	Liabilities £m	Income statement £m	Other comprehensive income £m
Balance at 1 February 2017	-	(59)	-	-
Current service cost	-	-	-	-
Past service gain	-	-	-	-
Interest on defined benefit scheme assets/(liabilities)	-	(2)	(2)	-
<b>Amounts recognised in the income statement</b>	<b>-</b>	<b>(2)</b>	<b>(2)</b>	<b>-</b>
Effect of changes in financial assumptions	-	-	-	-
Effect of changes in demographic assumptions	-	4	-	4
Effect of experience adjustment	-	11	-	11
Return on plan assets excluding interest income	-	-	-	-
<b>Amounts recognised in the statement of comprehensive income</b>	<b>-</b>	<b>15</b>	<b>-</b>	<b>15</b>
<b>Foreign exchange gain/(loss)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Contribution from scheme participants	-	-	-	-
Benefits paid from scheme assets	(1)	1	-	-
Ongoing employer contributions	-	-	-	-
Deficit reduction employer contributions	1	-	-	-
<b>Movements through cash</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>
<b>Balance at 31 January 2018</b>	<b>-</b>	<b>(45)</b>	<b>-</b>	<b>-</b>
Current service cost	-	-	-	-
Past service cost	-	-	-	-
Interest on defined benefit scheme assets/(liabilities)	-	(1)	(1)	-
<b>Amounts recognised in the income statement</b>	<b>-</b>	<b>(1)</b>	<b>(1)</b>	<b>-</b>
Effect of changes in financial assumptions	-	-	-	-
Effect of changes in demographic assumptions	-	-	-	-
Effect of experience adjustment	-	-	-	-
Return on plan assets excluding interest income	-	-	-	-
<b>Amounts recognised in the statement of comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Contribution from scheme participants	-	-	-	-
Benefits paid from scheme assets	(1)	1	-	-
Ongoing employer contributions	1	-	-	-
Deficit reduction employer contributions	-	-	-	-
<b>Movements through cash</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>
<b>Balance at 31 January 2019</b>	<b>-</b>	<b>(45)</b>	<b>-</b>	<b>-</b>

## 25 Pensions (continued)

### Fair value of plan assets

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

The tables below show the AAUK and AAI scheme assets split between those that have a quoted market price and those that are unquoted.

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

	2019		2018	
	Assets with a quoted market price £m	Assets without a quoted market price £m	Assets with a quoted market price £m	Assets without a quoted market price £m
Equities	156	324	174	352
Bonds/swaps	514	205	813	211
Property	87	189	88	183
Hedge funds	21	394	23	440
Private equity	17	14	-	-
Cash/net current assets	15	2	17	2
Annuity policies	-	304	-	-
<b>Total AAUK scheme assets</b>	<b>810</b>	<b>1,432</b>	<b>1,115</b>	<b>1,188</b>
<b>Actual return on AAUK plan assets</b>		<b>(11)</b>		<b>132</b>

The fair value of the AAI scheme assets and the return on those assets were as follows:

	2019		2018	
	Assets with a quoted market price £m	Assets without a quoted market price £m	Assets with a quoted market price £m	Assets without a quoted market price £m
Equities	10	-	10	-
Bonds/swaps	18	-	14	-
Property	-	5	-	-
Hedge funds	11	-	-	19
<b>Total AA Ireland scheme assets</b>	<b>39</b>	<b>5</b>	<b>24</b>	<b>19</b>
<b>Actual return on AA Ireland plan assets</b>		<b>1</b>		<b>2</b>

## 25 Pensions (continued)

### Investment strategy

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

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

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

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

### Pension plan assumptions

The principal actuarial assumptions were as follows:

	AAUK		AAI		AAPMP	
	2019 %	2018 %	2019 %	2018 %	2019 %	2018 %
Pensioner discount rate	<b>2.5</b>	2.5	<b>1.3</b>	1.6	<b>2.5</b>	2.5
Non-pensioner discount rate	<b>2.7</b>	2.6	<b>2.1</b>	2.3	<b>2.5</b>	2.5
Pensioner RPI	<b>3.2</b>	3.3	-	-	<b>3.2</b>	3.3
Non-pensioner RPI	<b>3.1</b>	3.3	-	-	<b>3.2</b>	3.3
Pensioner CPI	<b>2.1</b>	2.2	<b>1.3</b>	1.6	<b>2.1</b>	2.2
Non-pensioner CPI	<b>2.0</b>	2.2	<b>1.3</b>	1.6	<b>2.1</b>	2.2
Rate of increase of pensions in payment (final salary sections) - pensioner	<b>3.1</b>	3.1	-	-	-	-
Rate of increase of pensions in payment (final salary sections) – non-pensioner	<b>3.0</b>	3.1	-	-	-	-
Rate of increase of pensions in payment (CARE section) - pensioner	<b>1.7</b>	1.7	-	-	-	-
Rate of increase of pensions in payment (CARE section) – non-pensioner	<b>1.6</b>	1.7	-	-	-	-
Pensioner increase for deferred benefits	<b>2.0</b>	2.2	<b>1.3</b>	1.6	-	-
Medical premium inflation rate	-	-	-	-	<b>7.2</b>	7.3

Mortality assumptions are set using standard tables based on scheme-specific experience where available and an allowance for future improvements. For 2019, the assumptions used were in line with the SAPS (S2) series mortality tables (2018 – SAPS (S2) series) with future improvements in line with the CMI\_2017 model with a 1.25% long-term rate of improvement (2018 – CMI\_2016 model with a 1.25% long-term rate of improvement). The AAI scheme mortality assumptions are set using standard tables with scheme-specific adjustments.

**25 Pensions (continued)**

The AA schemes' overall assumptions are that an active male retiring in normal health currently aged 60 will live on average for a further 27 years (2018: 27 years) and an active female retiring in normal health currently aged 60 will live on average for a further 29 years (2018: 29 years).

**Sensitivity analysis**

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

	For the year ended 31 January 2019		
	AAUK £m	AAI £m	AAPMP £m
Increase of 0.25% in discount rate	117	3	2
Increase of 0.25% in RPI	(94)	(1)	-
Increase of 1% in medical claims inflation	-	-	(9)
Increase of one year of life expectancy	(87)	(2)	-

An equivalent decrease in the assumptions at 31 January 2019 would have had the equal but opposite effect on the amounts shown above, on the basis that all other variables remain constant.

The weighted average duration of the defined benefit obligation at 31 January 2019 is around 20 years.

**Pension scheme risks**

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

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

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

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

## 25 Pensions (*continued*)

### Pension scheme risks (*continued*)

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

The AAUK scheme aims to hedge around 70% of both the interest rate risk and inflation risk (of the liabilities on the scheme-specific funding measure) as part of a policy to reduce financial risks. As at 31 January 2019, the scheme has hedged around 75% of interest rate risk and around 70% of inflation risk (of the liabilities on the scheme-specific funding measure). Hedging levels fluctuate over time and are monitored closely by the scheme trustees and any changes required would be made as, and when, prevailing pricing is regarded as reasonable value in the circumstances, or if any other reasons drive a policy change on risk appetite.

### Bulk annuity policy purchase

During the year, the trustee of the AAUK scheme purchased a bulk annuity policy from Canada Life which insures all the benefits payable under the scheme in respect of 2,510 pensioner and dependent members. The trustee has invested in such a policy as the AAUK scheme will see all financial and demographic risks exactly matched for the covered members.

The annuity policy has been purchased in the name of the trustee and therefore remains an asset of the AAUK scheme. Under IAS 19, this policy is considered to be a qualifying insurance policy which exactly matches the amount and timing of certain benefits payable under the scheme. The fair value of the insurance policy is therefore deemed to be the present value of the related defined benefit obligations.

At 23 August 2018, the date of the risk transfer to Canada Life, the defined benefit obligation for the covered population was c. £47m less than the premium of c. £351m paid for the policy. This difference between premium paid and fair value of the insurance policy has been recognised in the Group's statement of financial position as at 31 January 2019 through other comprehensive income as an asset loss. It should be noted that this is separate to the measure of the funding deficit (used to set cash contributions to the AAUK scheme) which we expect will be reduced as a result of this policy given the prudent nature of the funding measure.

There will be a final adjustment premium paid once a data cleanse has taken place to take account of differences between the data used for quotation purposes and the finalised data, which will be concluded within 24 months of the risk transfer date. Any further premiums, or refunds where relevant, will be recognised through other comprehensive income.

**26 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:

	<b>2019</b>	2018
	<b>£m</b>	£m
Roadside Assistance	<b>874</b>	874
Insurance Services	<b>240</b>	240
AA Cars (see note 12)	<b>25</b>	25
DriveTech	<b>31</b>	31
	<b>1,170</b>	1,170

The Group has performed impairment testing at 31 January 2019 and 31 January 2018. The impairment test compares the recoverable amount of the CGU with 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 2022 and a 2% growth expectation in the subsequent two years. For the purposes of the impairment test, terminal values have been calculated using a 2% growth assumption. 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 9.9% (2018: 9.6%).

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.

In the prior financial year, the Driving Schools' goodwill was impaired to £nil as a result of this review.

Goodwill was not impaired for Roadside Assistance, Insurance Services or DriveTech in either the current or prior financial year.

## 27 Financial assets and financial liabilities

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

### Financial assets

	2019 £m	2018 £m
<b>Loans and receivables</b>		
Cash and cash equivalents	20	50
Trade receivables	141	135
Deferred consideration	3	6
Other receivables and contract assets	21	21
Amounts owed by parent undertaking	1,214	1,214
<b>Total financial assets</b>	<b>1,399</b>	<b>1,426</b>

### Financial liabilities

	2019 £m	2018 £m
<b>Measured at fair value through other comprehensive income</b>		
Interest rate and fuel swaps used for hedging	-	9
<b>Loans and borrowings</b>		
Trade payables	79	100
Other payables and accruals	63	51
Deferred consideration	12	26
Obligations under finance lease agreements	61	64
Borrowings	2,724	2,727
<b>Total financial liabilities</b>	<b>2,939</b>	<b>2,977</b>

### Fair values

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

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

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

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

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

**27 Financial assets and financial liabilities (continued)**

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

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

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

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

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

**At 31 January 2019:**

	Carrying value £m	Fair value measurement using		
		Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
<b>Financial liabilities measured at fair value</b>				
Interest rate and fuel swaps (note 20)	-	-	-	-
Deferred consideration (due in more than one year) (note 19)	10	-	10	-
<b>Liabilities for which fair values are disclosed</b>				
Loan notes (note 21)	2,724	2,577	-	-

**At 31 January 2018:**

	Carrying value £m	Fair value measurement using		
		Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
<b>Financial liabilities measured at fair value</b>				
Interest rate and fuel swaps (note 20)	9	-	9	-
Deferred consideration (due in more than one year)	11	-	11	-
<b>Liabilities for which fair values are disclosed</b>				
Loan notes (note 21)	2,478	2,639	-	-

There have been no transfers between the levels and no non-recurring fair value measurements of assets and liabilities during the two years to 31 January 2019.

## 28 Financial risk management objectives and policies

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

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

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

### Market risk

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

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

	2019 £m	2018 £m
<b>Fixed rate instruments</b>		
Financial liabilities	(2,786)	(2,532)
Effect of interest rate swaps	-	(250)
<b>Net exposure to fixed rate instruments</b>	<b>(2,786)</b>	<b>(2,782)</b>
<b>Variable rate instruments</b>		
Financial liabilities	-	(249)
Effect of interest rate swaps	-	250
<b>Net exposure to variable rate instruments</b>	<b>-</b>	<b>1</b>

### Sensitivity of fixed-rate instruments

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

### Sensitivity of variable rate instruments

An increase of 50 basis points in interest rates at 31 January 2019 would have increased equity by £nil (2018: £1m) and would have had no impact on profit or cash because the Senior Term Facility was repaid during the period (see note 21). A decrease to interest rates of the same magnitude will have an equal and opposite effect on equity and profit. This calculation assumes that the change occurred at the year end and had been applied to risk exposures existing at that date.

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

## 28 Financial risk management objectives and policies (continued)

### Credit risk

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

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

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

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

The ageing analysis of trade receivables is as follows:

	Total £m	Neither past due nor impaired £m	Past due but not impaired		
			< 30 days £m	30 - 60 days £m	60+ days £m
<b>2019</b>	<b>141</b>	<b>137</b>	<b>3</b>	<b>-</b>	<b>1</b>
2018	135	129	4	-	2

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

	2019 £m	2018 £m
At 1 February	3	2
Charge for the year	2	3
Utilised	(3)	(1)
Unused amounts reversed	-	(1)
<b>At 31 January</b>	<b>2</b>	<b>3</b>

## 28 Financial risk management objectives and policies (continued)

### Liquidity risk

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

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

#### At 31 January 2019:

	Less than 1 year £m	1 to 2 years £m	2-5 years £m	over 5 years £m	Total £m
Loans and borrowings	125	343	2,216	1,110	3,794
Obligation under finance leases	51	10	3	-	64
Other payables and accruals	63	-	-	-	63
Contingent consideration	2	4	6	-	12
Trade payables	79	-	-	-	79
	<b>320</b>	<b>357</b>	<b>2,225</b>	<b>1,110</b>	<b>4,012</b>

#### At 31 January 2018:

	Less than 1 year £m	1 to 2 years £m	2-5 years £m	over 5 years £m	Total £m
Loans and borrowings	117	117	2,282	832	3,348
Obligation under finance leases	52	10	7	-	69
Other payables and accruals	51	-	-	-	51
Contingent consideration	-	6	5	-	11
Trade payables	100	-	-	-	100
	<b>320</b>	<b>133</b>	<b>2,294</b>	<b>832</b>	<b>3,579</b>

#### Interest rate swaps used for hedging

Assets (inflow)	(7)	-	-	-	(7)
Liabilities	19	2	3	-	24
	12	2	3	-	17
	<b>332</b>	<b>135</b>	<b>2,297</b>	<b>832</b>	<b>3,596</b>

## 28 Financial risk management objectives and policies *(continued)*

### Capital management

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

The capital structure at 31 January 2019 can be summarised as below:

	Expected maturity date	Interest rate %	Principal £m
Class A2 notes	31 July 2025	6.27	500
Class A3 notes	31 July 2020	4.25	200
Class A5 notes	31 January 2022	2.88	700
Class A6 notes	31 July 2023	2.75	250
Class A7 notes	31 July 2024	4.88	550
Class B2 notes	31 July 2022	5.50	570
Total borrowings		<b>4.52</b>	<b>2,770</b>
Finance lease obligations			<b>61</b>
Cash and cash equivalents			<b>(20)</b>
Total net debt			<b>2,811</b>
Share capital			-
<b>Total capital</b>			<b>2,811</b>

At 31 January 2019, all 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 2019.

The Group's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to put service, innovation and data at the heart of the AA;
- to deliver targeted and strategic investment in our people, our products, our systems and operations; and
- to reduce Group borrowings and associated interest costs.

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

In July 2018, we successfully completed a further refinancing package which resulted in the extension of our effective near-term debt maturity until January 2022.

AA Bond Co Limited, a subsidiary of AA Intermediate Co Limited, issued £550m of new Sub-Class A7 Fixed Rate Notes with an expected maturity of 31 July 2024 and a final maturity of 31 July 2043, with a coupon of 4.875% payable semi-annually in arrears.

The proceeds from the issuance of the Class A7 Notes were used to repay in full the Group's previous £250m Senior Term Facility due 2021. The remaining £300m of the proceeds of the Class A7 Notes were used to redeem £300m of the outstanding £500m aggregate principal of Class A3 Notes.

The AA also entered into a £200m forward starting Senior Term Facility due in July 2023, in order to secure committed funding to be able to redeem the £200m of Class A3 Notes left outstanding at their effective maturity on 31 July 2020. This forward starting facility replaces the Group's previous £250m Senior Term Facility.

## 28 Financial risk management objectives and policies *(continued)*

A new working capital facility of £60m (together with a £15m accordion facility), has also been put in place to replace the previous £75m working capital facility, with a maturity to 31 July 2023 and with the same margin as the previous facility.

These refinancings are in line with the AA's disciplined and proactive approach to managing its capital structure and reduce any refinancing risk in the near-term. The extension in maturity of debt will mean that the next repayment of borrowings (other than that to be funded by the committed forward starting senior facility) is not due until January 2022, providing significant runway for the business to focus on the strategic plan.

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 2019.

The Company continues to evaluate the 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 notes currently have a reducing sliding scale premium on redemption of the principal which 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+.

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

	<b>2019</b>	2018
	<b>£m</b>	£m
Senior Term Facility	-	250
Class A notes	<b>2,200</b>	1,950
Less: cash and cash equivalents	<b>(20)</b>	(50)
<b>Net Senior Secured Debt<sup>1</sup></b>	<b>2,180</b>	2,150
Class B2 notes	<b>570</b>	570
Finance lease obligations	<b>61</b>	64
<b>Net Debt</b>	<b>2,811</b>	2,784
Net debt ratio <sup>2</sup>	8.3x	7.1x
Senior leverage ratio <sup>3</sup>	6.5x	5.47x
Class A free cash flow: debt service <sup>4</sup>	2.6x	3.3x
Class B free cash flow: debt service <sup>5</sup>	1.9x	2.4x

1 Principal amounts of the Senior Term Facility and Class A notes less cash and cash equivalents

2 Ratio of Net Debt to Trading EBITDA for the last 12 months

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

4 Ratio of last 2 months free cash flow to proforma debt service relating to the Senior Term Facility and Class A notes

5 Ratio of last 12 months free cash flow to proforma debt service

In order to comply with the requirements of the Class A notes, we are required to maintain the Class A free cash flow to debt service ratio in excess of 1.35x. The actual Class A free cash flow to debt service ratio as at 31 January 2019 was 2.6x (2018: 3.3x). The Class B2 notes require us to maintain the Class B2 free cash flow to debt service ratio in excess of 1x. The actual Class B2 free cash flow to debt service ratio as at 31 January 2019 was 1.9x (2018: 2.4x).

The Group includes regulated companies which are required to hold sufficient capital to meet acceptable solvency levels based on the relevant regulators' requirements (see note 17). There are no other externally imposed capital requirements.

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

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

The Class A 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 restrictions 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.

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

**Key Cash Release Metrics**

	<b>2019</b>	2018
Net senior leverage <sup>1</sup>	<b>6.5x</b>	5.47x
Excess cash flow <sup>2</sup>	<b>£91m</b>	£91m
Fixed charge cover ratio <sup>3</sup>	<b>2.6x</b>	3.0x
Consolidated net income <sup>4</sup>	<b>£267m</b>	£208m

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

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

3 Ratio of fixed finance charges to Trading EBITDA.

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

## 29 Commitments and contingencies

### Operating lease commitments

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

	<b>Land and Buildings</b>	
	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
Within one year	<b>3</b>	4
Between one and five years	<b>10</b>	9
After five years	<b>27</b>	27
	<b>40</b>	40
Amounts included in onerous lease provisions	<b>(1)</b>	(1)
	<b>39</b>	39

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

### Finance lease commitments

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

	<b>2019</b>		<b>2018</b>	
	<b>Present value of payments</b>	<b>Minimum payments</b>	<b>Present value of payments</b>	<b>Minimum payments</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Within one year	<b>49</b>	<b>51</b>	48	52
Between one and five years	<b>12</b>	<b>13</b>	16	17
Total minimum lease payments	<b>61</b>	<b>64</b>	64	69
Less amounts representing finance charge	-	<b>(3)</b>	-	(5)
Present value of minimum lease payments	<b>61</b>	<b>61</b>	64	64

### Lease accounting under IFRS 16

Upon adoption of IFRS 16, the Group's accounting treatment of leases will change from 1 February 2019 (see note 36).

### Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £15m (2018: £22m).

### 30 Principal subsidiary undertakings

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

### 31 Auditors' remuneration

	2019 £m	2018 £m
<b>Amounts receivable by the Company's auditors and their associates in respect of:</b>		
Audit of financial statements of subsidiaries of the Company	1	1

The fee for the audit of these financial statements was £10,000 (2018: £14,000).

### 32 Related party transactions

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

#### Transactions with associates:

Associate	Nature of transaction	2019 £m	2018 £m
ARC Europe SA.	Registration fees paid	-	4

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

Entity	Relationship	2019 £m	2018 £m
AA Mid Co Limited	Immediate parent	1,205	1,205
AA plc	Indirect parent	9	9
		1,214	1,214

### Cross-company guarantees

The Company is an obligor to the bank loans and bond debt of the AA Intermediate Co Limited group. At 31 January 2019, the principal outstanding on the AA Intermediate Co Limited group debt was £2,769.8m (2018: £2,769.8m).

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

### 33 Compensation of key management personnel of the Group

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

Key management personnel consists of the Chief Executive Officer, Chief Financial Officer, Non-Executive Directors and the Executive Committee as well as the former Executive Chairman until his dismissal.

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

	2019 £m	2018 £m
Short-term employee benefits	6	5
Share-based payments (see note 34)	1	(2)
<b>Total compensation paid to key management personnel</b>	<b>7</b>	<b>3</b>

### 34 Share-based payments

	2019 £m	2018 £m
Equity-settled share-based payments:		
Share-based payments – MVP shares	-	4
Share-based payments – LTBP	-	1
Share-based payments – Performance Share Plan	1	-
Share-based payments – Employee Share Incentive Plan	3	2
<b>Total share-based payments expense net of exceptional item</b>	<b>4</b>	<b>7</b>
Share-based payments – MVP shares – exceptional item	-	(7)
<b>Total share-based payments expense</b>	<b>4</b>	<b>-</b>

### 34 Share-based payments (continued)

#### Management value participation shares (MVP shares)

On 23 June 2014, the Company issued 24 million convertible, redeemable MVP shares to certain key members of senior management at £0.001 per share. These shares were divided into three classes and are convertible into ordinary shares following satisfaction of a Total Shareholder Return (TSR) performance condition of 12% (or above) per annum compound growth against the admission price of £2.50 which is tested on the third, fourth and fifth anniversaries of admission to the London Stock Exchange. A further 36 million MVP shares were issued at £0.001 per share on 22 December 2015.

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

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

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

Having previously failed to vest, the A and B shares may still vest and be converted on the fifth anniversary of admission. The C shares will be tested for the first time on the fifth anniversary of admission.

All MVP shares were valued using a binomial model and 25% volatility assumption to calculate the fair value using risk-free interest rates in a range of 0.38% - 1.82%. The expected volatility reflects the assumption that the historical volatility is indicative of future trends which may not necessarily be the actual outcome.

On 1 August 2017, the former Executive Chairman, who held 55% of the MVP shares, was dismissed for gross misconduct. Under the rules of the scheme he was deemed to be a bad leaver and therefore the Company had the right to request transfer of (and failing compliance, transfer itself) all those MVP shares for a total consideration of 1 penny. The Company issued the transfer notice on 9 March 2018 and transferred the shares on 16 April 2018 to its EBT. As per IFRS 2, the share-based payment charge in relation to his shares, was reversed in the prior year resulting in a credit to exceptional operating items in the income statement of £7m and a corresponding debit to equity.

On 29 November 2018, the Group CFO transferred his entire holding of MVP shares back to the Company and so the corresponding share-based payment vesting charge has been accelerated in the year. These shares are now held in the EBT as at 31 January 2019.

### 34 Share-based payments (continued)

#### Long Term Bonus Plan (LTBP)

As at 31 January 2019, the Company had issued 4 million conditional awards over market purchased ordinary shares held in the EBT to certain key members of senior management at nil cost. These shares were divided into three tranches, A, B and C and vest following satisfaction of a TSR performance condition of 12% per annum compound growth against the admission price which is tested on the third, and subject to earlier vesting, fourth and fifth anniversaries of admission to the London Stock Exchange and satisfaction of certain individual performance targets.

If the awards over A and B shares do not vest on the third anniversary of admission, then they are retested on the fourth and, if still not vested, the fifth anniversary. If the awards over B shares do not vest on the fourth anniversary of admission, then they are retested on the fifth anniversary. The awards over C shares are tested for the first time on the fifth anniversary.

The fair values of awards were calculated using a Monte Carlo simulation model. The expected volatility range of 20% - 32% reflects the assumption that the historical volatility is indicative of future trends which may not necessarily be the actual outcome.

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

	Vesting Date	2019	2018	2019	2018
		No. of shares	No. of shares	Weighted fair value per share	Weighted fair value per share
				£	£
A shares	26 June 2017	<b>766,728</b>	873,423	<b>2.49</b>	2.49
B shares	26 June 2018	<b>750,084</b>	859,069	<b>1.98</b>	1.98
C shares	26 June 2019	<b>707,729</b>	842,036	<b>1.54</b>	1.54
<b>Total</b>		<b>2,224,541</b>	2,574,528		

The number of ordinary shares over which awards are held has reduced by 349,987 due to leavers during the financial year (2018: reduced by 410,768 ordinary shares due to leavers). The difference between the 4 million issued awards and the current number of outstanding awards is due to leavers.

**34 Share-based payments (continued)**

**Retention Award**

On 19 December 2017, the Company issued 2 million conditional awards over market purchased ordinary shares to certain key members of senior management who were already in the LTBP scheme, at nil cost.

These shares were divided into two tranches, 1 and 2, and vest following satisfaction of a TSR performance condition of 12% per annum compound growth against the re-based issue price which is tested on the fourth and fifth anniversaries of admission to the London Stock Exchange and satisfaction of certain individual performance targets.

The Retention Award will lapse or partially lapse if the original LTBP awards vest in full or in part.

The fair values of awards were calculated using a Monte Carlo simulation model. The expected volatility range of 32% - 36% reflects the assumption that the historical volatility is indicative of future trends which may not necessarily be the actual outcome.

The following table illustrates the number and fair values of the Retention Award shares:

	Vesting Date	<b>2019 No. of shares</b>	2018 No. of shares	<b>2019 fair value per share £</b>	2018 fair value per share £
Tranche 1	6 November 2018	<b>703,416</b>	914,230	<b>0.87</b>	0.87
Tranche 2	6 November 2019	<b>703,416</b>	914,230	<b>0.57</b>	0.57
<b>Total</b>		<b>1,406,832</b>	1,828,460		

### 34 Share-based payments *(continued)*

#### Employee Share Incentive Plans

The Group has a number of all-Employee Share Incentive Plans (ESIP). Under the ESIP, employees are able to buy Partnership shares by making weekly or monthly payments into the ESIP. In addition, for every Partnership share an employee purchases the Company will match this on a 1:1 basis (Matching shares). The ESIP share-based payments are equity-settled.

The following table illustrates the weighted fair value at award date and vesting period for each of the ESIPs awarded:

Share type	Award date	Vesting date	No. of shares 2019 <sup>1</sup>	Weighted fair value per share £
2015 SIP				
Partnership shares	29 August 2014	29 August 2015	2,132,766	0.23
Matching shares	29 August 2014	29 August 2018	2,132,766	2.58
2016 SIP				
Matching shares	See below	See below	1,366,211	2.20
2017 SIP				
Matching shares	See below	See below	1,727,537	1.64
2018 ESIP				
Matching shares	See below	See below	2,760,185	1.00
<b>Total</b>			<b>10,119,465</b>	

<sup>1</sup> The number of shares shown above is the estimated number

The 2015 ESIP Partnership shares were valued using a Black-Scholes model. The expected volatility reflected the assumption that the historical volatility was indicative of future trends which may not necessarily have been the actual outcome.

For the 2016 ESIP onwards, ESIP shares were issued on the 11<sup>th</sup> day of each month with a vesting period of 36 months from the date they were issued.

### 34 Share-based payments (continued)

#### Performance Share Plan (PSP)

During the 2018 financial year, awards were granted under the PSP scheme to the CEO and other members of Senior Management (the 2017 PSP scheme). As at 31 January 2018, no performance criteria had been set for these share awards and therefore, as there was no shared understanding of the terms of the scheme, no IFRS 2 charge was accounted for in the accounts for the 2018 financial year.

During the 2019 financial year, performance conditions were communicated to participants in the 2017 PSP scheme. As a result the grant date for this scheme occurred during the year, whereby there was a shared understanding of the terms of the scheme, and so a catch-up IFRS 2 charge was processed to bring the cumulative charge up to date as at 31 January 2019.

In addition to this, further awards were granted under the PSP scheme to members of senior management during the 2019 financial year.

A proportion of the PSP awards are subject to a comparative TSR performance condition. This includes 100% of the 2017 Award (due to the presence of a TSR underpin) and 50% of the 2018 Award. The fair values of awards were calculated using a Monte Carlo simulation model to take into account the expectation at the grant date that the performance conditions will be met. The expected volatility has been calculated using historical daily data commensurate with the expected term of each award as at each grant date.

The following table illustrates the fair value and vesting period of the PSP schemes:

			2019	2018	2019	2018
	Award Date	Vesting Date	No. of shares	No. of shares	Weighted fair value per share £	Weighted fair value per share £
2017 CEO Award	27 October 2017	27 October 2020	1,148,606	-	0.97	-
2017 Award	11 December 2017	27 October 2020	4,019,107	-	0.75	-
2018 CEO/CFO	7 November 2018	22 November 2021	1,950,412	-	0.86	-
2018 Award	7 November 2018	22 May 2021	5,946,613	-	0.86	-
<b>Total</b>			<b>13,064,738</b>	-		

#### Insurance Long Term Bonus Plan (Insurance LTBP)

During the year awards were granted under a LTBP to certain key members of senior management of the Group's Insurance businesses. The award date for this scheme was 23 January 2019 and so no IFRS 2 charge has been made as it would not have a material impact on the financial statements.

### 35 Ultimate parent undertaking and controlling party

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

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

## 36 Accounting standards, amendments and interpretations

### New accounting standards, amendments and interpretations adopted in the year

#### *IFRS 9 Financial Instruments*

On 1 February 2018, the Group adopted IFRS 9 'Financial Instruments', which replaced IAS 39 'Financial Instruments: Recognition and Measurement'. The Group has not restated comparative information for prior periods.

#### **Classification and measurement of financial assets and liabilities**

On 1 February 2018, there were no changes to the carrying values of the Group's financial assets from adopting the new classification model.

There have been no changes to the classification of the Group's financial liabilities. The effect of adopting IFRS 9 on the carrying amount of financial liabilities at 1 February 2018 relates solely to new requirements relating to non-substantial modifications of borrowings and loans, as described further below.

The following table demonstrates the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities as at 1 February 2018.

	<b>Original classification under IAS 39</b>	<b>New classification under IFRS 9</b>	<b>Original carrying amount under IAS 39 £m</b>	<b>New carrying amount under IFRS 9 £m</b>
<b>Financial assets</b>				
Trade and other receivables	Loans and receivables	Amortised cost	173	173
Cash and cash equivalents	Loans and receivables	Amortised cost	50	50
<b>Total financial assets</b>			<b>223</b>	<b>223</b>
<b>Financial liabilities</b>				
Interest swaps used for hedging	Fair value – hedging instrument	Fair value – hedging instrument	(9)	(9)
Borrowings and loans	Amortised cost	Amortised cost	(2,727)	(2,714)
Trade and other payables	Amortised cost	Amortised cost	(497)	(497)
<b>Total financial liabilities</b>			<b>(3,233)</b>	<b>(3,220)</b>

As part of the refinancing of existing debt, in prior years the Group performed a modification of borrowings, which is treated as a non-substantial modification under IFRS 9 which does not result in an extinguishment of debt.

The existing borrowings and loans are not derecognised, but the carrying value is adjusted. Under IAS 39, modifications were accounted for by discounting the remaining cash flows of the modified debt at a revised effective interest rate. Under IFRS 9, remaining cash flows should be discounted at the original effective interest rate, leading to an immediate gain or loss being recognised in the income statement. On transition to IFRS 9, using the original effective interest rate, the new carrying value of the borrowings was £13m lower than the old carrying value as a result of the lower interest rates on the refinanced debt. This gain was recognised as a decrease in the opening balance of borrowings and loans and an increase in opening retained earnings at 1 February 2018.

The adoption of IFRS 9 has resulted in a taxable gain of £13m, less the associated £2m of tax, being posted to reserves. As the restatement is taxable in the year of change the £2m is represented in the reserves movement as a deferred tax charge.

### 36 Accounting standards, amendments and interpretations (continued)

#### Impairment of financial assets

From 1 February 2018, the Group implemented an expected credit loss impairment model for financial assets. For trade receivables, our calculation methodology has been updated to consider expected losses based on their ageing profile. The adoption of the expected loss approach has not resulted in any material change in impairment provision for any financial asset.

#### Hedge accounting

The Group applied the hedge accounting requirements of IFRS 9 prospectively. At the date of initial application all of the Group's existing hedging relationships were eligible to be treated as continuing hedge relationships.

#### Transition

Changes in accounting policies resulting from adoption of IFRS 9 have been applied retrospectively, except as described below:

- The Group has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 February 2018. Accordingly, the information presented for the prior period does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.
- The determination of the business model assessment within which a financial asset is held has been made on the basis of the facts and circumstances that existed at the date of initial application.
- If an investment in a financial asset had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.
- Changes to hedge accounting policies have been applied prospectively.
- All hedging relationships designated under IAS 39 at 31 January 2018 met the criteria for hedge accounting under IFRS 9 at 1 February 2018 and are therefore regarded as continuing hedging relationships.

#### *IFRS 15 Revenue from Contracts with Customers*

On 1 February 2018, the Group adopted IFRS 15 'Revenue from Contracts with Customers'. The Group has not restated comparative information for prior periods.

There have been no changes to the measurement of revenue as a result of this standard. However, additional disclosures have been required in the form of disaggregation of our different revenue streams. Please see note 2 where this disaggregation of revenue has been presented.

The Group has taken advantage of the practical expedient in paragraph 63 of IFRS 15 in relation to its contracts which contain a significant financing component where customers choose to pay by instalments.

Aside from IFRS 9 and IFRS 15, the Group did not identify any new accounting standards coming into effect in the current year with a material impact on the financial statements.

## **36 Accounting standards, amendments and interpretations (continued)**

### **New accounting standards, amendments and interpretations not yet adopted**

A number of new standards, amendments and interpretations have been issued and will be effective for annual reports beginning after 1 February 2019 but have not been applied by the Group in these financial statements. These are set out below (effective dates are EU effective dates).

- IFRS 16 Leases (effective date 1 January 2019). Significant impact on the financial statements expected, see below for details on effect of adoption.
- IFRIC 23 Uncertainty over Income Tax Treatments (effective date 1 January 2019).
- Amendments to IFRS 9: Prepayment Features with Negative Compensation (effective date 1 January 2019).
- IFRS 17 Insurance Contracts (effective date to be confirmed).
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (effective date to be confirmed).
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (effective date to be confirmed).
- Amendments to References to the Conceptual Framework in IFRS Standards (effective date to be confirmed).
- Annual Improvements to IFRS Standards 2015-2017 Cycle (effective date to be confirmed).

The Group did not identify any new accounting standards coming into effect in the financial year ending 31 January 2020 with an expected material impact on the financial statements, except for IFRS 16 for which the impact is explained below.

#### *IFRS 16 Leases*

Management expects the adoption of IFRS 16 to have a significant impact on the Group due to the number of property leases. The Group expects to adopt IFRS 16 from 1 February 2019 and will apply the standard retrospectively, with the cumulative impact of initially applying the standard recognised at 1 February 2019.

The initial impact assessment indicates that the adoption of IFRS 16 will result in:

- an additional finance lease liability of c.£30m
- a tangible fixed asset of £20m - £30m (after adjusting for forecast onerous lease provisions and any rent-free accrual at 1 February 2019)
- increase in Trading EBITDA of c.1% in FY20, representing rental expense which will now reduce the lease liability rather than being charged to the income statement
- additional depreciation and interest expense of c.£4m in FY20

This impact assessment is based on current estimates of discount rate and also current expectations of the property portfolio at 1 February 2019. IFRS 16 requires lease liabilities to be discounted using the incremental borrowing rate on the date of initial application.

**37 Assets and liabilities classified as held for sale**

At the year end, AA Media Limited was held for sale, see note 38.

The assets classified as held for sale were:

	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
Inventories	<b>2</b>	-
Trade receivables	<b>4</b>	-
	<b>6</b>	-

The liabilities classified as held for sale were:

	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
Other taxes and social security costs	<b>1</b>	-
Accruals	<b>4</b>	-
	<b>5</b>	-

**38 Events after the reporting period**

On 1 February 2019, the Group completed the purchase of the entire share capital of Prestige Motor Care Holdings Limited and its three wholly owned subsidiaries Prestige Fleet Servicing Limited, Prestige Car Servicing Limited and Prestige Motor Care Limited for cash consideration of £11m.

On 8 February 2019, the Group drew down £15m of its working capital facility. This was repaid on 22 March 2019.

On 29 March 2019, the Group completed the sale of 51% of the share capital of AA Media Limited for cash consideration of £1m.

## Company statement of financial position as at 31 January

	Notes	2019 £m	2018 £m
<b>Non-current assets</b>			
Investments in subsidiaries	2	1,661	1,661
<b>Current assets</b>			
Trade and other receivables	3	115	132
<b>Total assets</b>		<b>1,776</b>	<b>1,793</b>
<b>Current liabilities</b>			
Trade and other payables	4	(1,756)	(1,770)
<b>Total liabilities</b>		<b>(1,756)</b>	<b>(1,770)</b>
<b>Net assets</b>		<b>20</b>	<b>23</b>
<b>Equity</b>			
Called up share capital	5	-	-
Retained earnings		20	23
<b>Total equity attributable to equity holders of the parent</b>		<b>20</b>	<b>23</b>

The loss for the financial year of the Company is £3m (2018: profit of £83m).

As at 31 January 2019, the Company had distributable reserves of £20m (2018: £23m).

Signed for and on behalf of the Board on 28 June 2019 by:

M Strickland  
Director

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

## Company statement of changes in equity

	Share capital £m	Retained earnings £m	Total £m
At 31 January 2017	-	20	20
Dividends paid	-	(80)	(80)
Profit for the year	-	83	83
<b>At 31 January 2018</b>	<b>-</b>	<b>23</b>	<b>23</b>
Dividends paid	-	-	-
Loss for the year	-	(3)	(3)
<b>At 31 January 2019</b>	<b>-</b>	<b>20</b>	<b>20</b>

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

## Notes to the Company financial statements

### 1 Presentation of financial statements and Company accounting policies

#### 1.1 Presentation of financial statements

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The financial statements are prepared on a going concern basis under the historical cost convention and in accordance with the Companies Act 2006.

The Company is incorporated and domiciled in England and Wales.

No income statement is presented by the Company as permitted by Section 408 of the Companies Act 2006.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 January 2019. The financial statements are prepared in sterling and are rounded to the nearest million pounds (£m).

#### 1.2 Basis of preparation

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

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

The Company did not identify any accounting standards, amendments or interpretations newly effective in the year with a material impact on these financial statements.

#### 1.3 Accounting policies

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

##### a) Foreign currencies

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

## Notes to the Company financial statements (*continued*)

### b) Investments in subsidiaries and joint ventures

Investments in subsidiaries and joint ventures are held at cost less impairment.

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

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

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

### c) Critical accounting estimates and judgements

Estimates are evaluated continually and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions about the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The following are principal estimates and assumptions made by the Company, but which management believe do not have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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

#### *Investments*

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

We have performed a sensitivity analysis and determined that when using discounted future cash flows or a price multiple approach, no impairment would be required. The key judgements in this sensitivity analysis are around the growth assumptions used for the future cash flows and the price multiples applied. To support our strategic plan, we have invested in new products and new ways of working which will drive growth in revenue and profits and provide longer term stability. Management do not foresee any significant changes to their impairment assessment in the next 12 months.

## 2 Investments in subsidiaries

	2019 £m	2018 £m
Investment in subsidiary at cost		
At 1 February and 31 January	1,661	1,661

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

## Notes to the Company financial statements (continued)

### 3 Trade and other receivables

	2019 £m	2018 £m
Amounts owed by subsidiary undertakings	115	129
Group tax relief	-	3
	<b>115</b>	<b>132</b>

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

### 4 Trade and other payables

	2019 £m	2018 £m
Amounts owed to parent undertakings	1,756	1,756
Amounts owed to subsidiary undertakings	-	14
	<b>1,756</b>	<b>1,770</b>

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

### 5 Share capital

	2019 £	2018 £
<b>Allotted, called up and fully paid</b>		
20 ordinary shares of £1 each	20	20
	<b>20</b>	<b>20</b>

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

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

During the year, the company did not pay a dividend (2018: the company paid a dividend of £4m per share, based on 20 shares at the time of distribution).

### 6 Auditors' remuneration

The fee for the audit of these financial statements was £10k (2018: £14k).

### 7 Employee costs

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

## Notes to the Company financial statements (*continued*)

### 8 Subsidiary undertakings

All subsidiaries are wholly owned (except where stated) and incorporated and registered where stated below. Except where otherwise stated, the share capital of each subsidiary consists of only ordinary shares.

The principal subsidiary undertakings of the Company at 31 January 2019 are:

Name	Country
AA Acquisition Co Limited <sup>1, 2</sup>	United Kingdom
AA Bond Co Limited <sup>1, 3</sup>	Jersey
AA Corporation Limited <sup>2, 7</sup>	United Kingdom
AA Financial Services Limited <sup>2</sup>	United Kingdom
AA Media Limited <sup>2</sup>	United Kingdom
AA Senior Co Limited <sup>2</sup>	United Kingdom
AA The Driving School Agency Limited <sup>2</sup>	United Kingdom
Automobile Association Developments Limited <sup>2</sup>	United Kingdom
Automobile Association Insurance Services Limited <sup>2</sup>	United Kingdom
Drivetech (UK) Limited <sup>2</sup>	United Kingdom
Used Car Sites Limited <sup>2</sup>	United Kingdom

The other subsidiary undertakings of the Company at 31 January 2019 are:

Name	Country
A.A. Pensions Trustees Limited <sup>2</sup>	United Kingdom
AA Brand Management Limited <sup>2</sup>	United Kingdom
AA Garage Services Limited <sup>2</sup>	United Kingdom
AA Ireland Pension Trustees DAC <sup>4</sup>	Ireland
AA Pension Funding GP Limited <sup>5</sup>	United Kingdom
AA Pension Funding LP <sup>5, 11</sup>	United Kingdom
AA Underwriting Limited <sup>2</sup>	United Kingdom
Automobile Association Holdings Limited <sup>2, 8</sup>	United Kingdom
Automobile Association Insurance Services Holdings Limited <sup>2</sup>	United Kingdom
Automobile Association Protection and Investment Planning Limited <sup>2</sup>	United Kingdom
Automobile Association Services Limited <sup>2, 9</sup>	United Kingdom
Automobile Association Underwriting Services Limited <sup>2</sup>	United Kingdom
Breakdown Assistance Services Limited <sup>6</sup>	United Kingdom
Breakdown Hero Limited <sup>6</sup>	
Drakefield Holdings Limited <sup>2, 10</sup>	United Kingdom
Drakefield Insurance Services Limited <sup>2</sup>	United Kingdom
Intelligent Data Systems (UK) Limited <sup>2</sup>	United Kingdom
Personal Insurance Mortgages and Savings Limited <sup>2</sup>	United Kingdom
The Automobile Association Limited <sup>3</sup>	Jersey

<sup>1</sup> Directly owned by AA Intermediate Co Limited, all other subsidiaries are indirectly held.

<sup>2</sup> Company registered office: Fanum House, Basing View, Basingstoke, Hampshire, RG21 4EA, England.

<sup>3</sup> Company registered office: 22 Greenville Street, St Helier, Jersey, JE4 8PX.

<sup>4</sup> Company registered office: 6<sup>th</sup> Floor, South Bank House, Barrow Street, Dublin 4, Ireland.

<sup>5</sup> Company registered office: 50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, Scotland.

<sup>6</sup> Company registered office: 90 Long Acre, London, WC2E 9RA, England.

<sup>7</sup> AA Corporation Limited has ordinary and redeemable preference shares.

<sup>8</sup> Automobile Association Holdings Limited has ordinary and deferred redeemable non-voting special dividend shares.

<sup>9</sup> Automobile Association Services Limited is limited by guarantee.

<sup>10</sup> Drakefield Holdings Limited has A and B ordinary shares.

<sup>11</sup> AA Pension Funding LP is a limited partnership.