3 April 2019

AA plc results for the year ended 31 January 2019 (FY19)
Trading EBITDA in line with guidance, targeting return to growth in FY20 with strong free cash flow generation

Simon Breakwell, CEO, said:

"One year into our strategic plan we have made significant progress. The results we are announcing today are in line with our previous Trading EBITDA guidance and reflect our investment in the business which puts service, innovation and data at the heart of the AA. Our new contracts with Lloyds Banking Group, Jaguar Land Rover, Volkswagen Group, Arval and others firmly position the AA as the B2B partner of choice for Roadside. We recognise there is still a lot to do, but we are building from a position of strength as market leader in breakdown, with best in class customer service, a growing Insurance business and a clear plan to differentiate the AA through digital capabilities and investment in connected car solutions.

"Looking ahead, we are confident that our strategic plan will deliver sustainable EBITDA growth and strong free cash flow generation that will enable us to delever and return long term value for our shareholders."

	Year ended Jan 19	Year ended Jan 18
GAAP measures		
Revenue (£m)	979	960
Operating profit (£m)	219	307
Profit before tax (£m)	53	141
Total proposed dividend per share (p)	2.0	5.0

Non-GAAP measures		
Trading EBITDA[1] (£m)	341	391
Trading EBITDA[2] margin (%)	35%	41%
Adjusted profit before tax[3] (£m)	115	164
Adjusted basic EPS[3] (p)	14.9	21.8
Cash conversion[4] (%)	87	94

Financial highlights

- Trading EBITDA of £341m in line with previous guidance of £335m to £345m
- Profit before tax of £53m is after the investment of £26m in Roadside and Insurance as part of the strategic plan and was distorted by a £22m non-cash adjustment for Guaranteed Minimum Pension (GMP) equalisation and a pension credit of £34m in the prior year
- Adjusting for the GMP charge, pre-tax profit of £75m, in line with expectations
- Well placed to deliver EBITDA growth in FY20; we maintain our medium-term target of delivering a CAGR in Group Trading EBITDA of between 5% to 8% by FY23 from FY19 base
- Cash conversion remains strong with capex, including finance lease capital payments net of proceeds from the sale of vehicles, in line with guidance at £104m. Targeting c£80m in free cash flow to equity in FY20, in line with previous guidance
- Successful refinancing, S&P credit ratings reaffirmed, bond buyback successfully completed
- Proposed final dividend of 1.4p per share

Operational highlights

- Building resilience through investments in front line resourcing, key management hires and streamlining of operational processes
- Significant progress with roll out of new digital products and services including Smart Breakdown and Onward Mobility. Well positioned to move beyond breakdown and significantly enhance membership proposition
- Meaningful improvement in staff engagement
- Successful renewal or extension of key FY19 B2B contracts; B2B customers down 1% to 9.79m, in line with expectations and market trends
- Average income per business customer up 5% to £21, reflecting new contract wins and additional revenue recognised under our pay-for-use contracts
- Average income per paid personal member up 3% to £162, due to increased proportion of monthly subscriptions and improved product mix
- As anticipated, paid personal memberships down c2% to 3.21m and retention exceeding 80%. Targeting broadly flat membership base in FY20 and to return to growth in FY21
- Insurance business continues to perform strongly with in-house underwriter demonstrating exceptional growth since launch in January 2016 with total policies underwritten of 598,000
- Motor policies grew 16% to 731,000 policies (of which 339,000 policies are underwritten by the AA); the home policy book returned to growth, ahead of expectations at 830,000 policies (of which 259,000 policies are underwritten by the AA)

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Presentation

A presentation by Simon Breakwell, CEO, and Martin Clarke, CFO, will be held for analysts, investors and bondholders at 9am today at The LSE, 10 Paternoster Square, London, EC4M 7LS

- Dial-in to the presentation: Conference call dial in: +44 20 3936 2999, Access code: 911599
- Replay: UK: +44 20 3936 3001; US: +1 845 709 8569; Access code: 845751
- Link to the webcast https://www.investis-live.com/aa/5c5c1350186fe71000636a55/omad

Notes

1. Earnings before net finance costs, tax, depreciation, amortisation, exceptional operating items, share-based payments, contingent consideration measurement movements and pension service charge adjustments.
2. Trading EBITDA divided by trading revenue arising within operating segments.
3. Adjusted for a number of one-offs of which the largest are exceptional operating items, share-based payments, pension service charge adjustment, contingent consideration measurement movements, the write off of debt issue fees, pension past service credit, penalties on early repayment of debt and transfer from cash flow hedge reserve.
4. Net cash inflows from continuing operating activities before tax and exceptional items divided by Trading EBITDA.

Chief Executive Officer's review

Last February, I set out our new strategy to address the challenges facing the AA and return this wonderful business to sustainable long-term growth. We have much work ahead of us – delivery will require persistence and relentless focus. A year on and we are a few miles into our journey. My team and I fully realise that meeting our Trading EBITDA guidance for one year does not constitute success – this will be measured once we have returned the AA to sustainable long-term profitable growth with the concomitant benefits that this brings to debt reduction. However, I am pleased with the changes that we have made and are making to build operational resilience and nurture a high-performance culture that is able to execute on our plans and do this at pace. I remain as excited as ever about the potential of the AA and the road ahead.

Performance

Financial results

Our decision to invest for the long-term was not without considerable impact on our shareholders, made worse by the historical underperformance of the business versus market expectations.

It was not a decision taken lightly but one which was imperative in order for us to build a better AA. In line with our guidance, Group Trading EBITDA declined in FY19 by 13% to £341m for three principal reasons. First, we made a conscious decision to add additional resources into front line service – historically our lack of operational resilience has led to frequent over runs on costs. Second, we believe we have the potential to accelerate growth in the insurance business and this required investment in marketing and people. Third, we needed to make investments in our people across the business to drive up engagement across the Group.

In February 2018, we guided to a target of delivering Group Trading EBITDA of between £335m to £345m. Mid-year, I re-iterated this guidance. We delivered on our plan and while much remains to be done, I am pleased with our performance overall and to have delivered Group Trading EBITDA of £341m, in line with our guidance.

Overall Revenue grew 2% to £979m compared with £960m in the prior year, reflecting a steady increase in performance of both the Roadside and Insurance businesses.

As noted above, Group Trading EBITDA fell 13% to £341m (2018: £391m), reflecting the impact of the additional strategic expenditure in our Roadside and Insurance businesses.

Operating profit before exceptional items decreased by £45m to £259m, a year-on-year decrease of 15%. This reduction was largely driven by the £50m decline in Trading EBITDA associated with the additional strategic expenditure of £26m in Roadside and Insurance as well as the increase in amortisation and depreciation due to the investment in IT transformation and growth capital expenditure.

In line with our expectations, adjusted profit after tax and adjusted earnings per share fell to £91m (2018: £133m) and 14.9p (2018: 21.8p) respectively. The adjustments included adding back exceptional operating items of £13m, pension service charge adjustment of £5m, share-based payment charge of £5m, contingent consideration measurement of £1m, impairment of software of £5m, pension past service cost of £22m and exceptional finance costs of £13m. See note 3 for an explanation of these measures.

Profit after tax was £42m (2018: £111m). The decrease was predominately due to the additional strategic expenditure of £26m noted above and the pension past service cost of £22m (2018: credit of £34m) due to the cost of Guaranteed Minimum Pension (GMP) equalisation (see note 17).

Balance sheet
Net liabilities decreased in the year by £65m. This included a decrease of £22m in the defined benefit pension scheme liability resulting from changes to macroeconomic led assumptions including increasing discount rates, falling long-term inflationary expectations, changes in the demographic assumptions (reflecting the latest outlook for mortality rates) and Group contributions paid into the schemes. These were partially offset by the increase from the Guaranteed Minimum Pension (GMP) equalisation exercise and the bulk annuity purchase from Canada Life on 23 August 2018, insuring the financial and demographic risks for around 2,500 pension scheme members.

Cash flow
Cash conversion remained healthy in the year at 87% (2018: 94%) with operating cash flow of £258m (2018: £316m).

Free cash flow to equity for our business this year was an outflow of £22m (2018: outflow of £5m). This was slightly below our expectations due to the impact of the refinancing in July 2018, however, as we move towards the end of the IT transformation programme and a more normalised period of capital expenditure beyond FY21, we are confident that we can achieve meaningful deleveraging in line with our medium to long term target range of 3 to 4 times net debt to EBITDA.

Our strategy

Last year, I announced our new strategy to reinvigorate the AA by putting service, innovation and data at the heart of our Roadside and Insurance businesses underpinned by operational and service excellence and a high performance culture. The key focus of our strategy is to develop truly differentiated digital products and services that create clear distance between us and our competition. Products that allow us to preserve the very best of the AA – built around caring and excellent customer service but coupled to new products that transform our members' and customers' experience.

I am pleased to report that one year in, we have made good progress across all our strategic priorities in FY19 and remain on-track to meet our medium-term operational and financial targets.

In the first year we have:

- Brought in a new senior leadership team;
- Started the roll out of a suite of new digital services;
- Accelerated the growth of our insurance business;
- Started to overhaul our IT estate and greatly improved the pace of IT delivery;
- Meaningfully improved staff engagement through investment in hiring and retaining the best employees, developing broad learning and development programmes and promoting open lines of communication across the Company; and
- Invested in a more robust and resilient service operation.

On a personal note, whilst the challenges have been considerable, nothing gives me more satisfaction than bringing together a great cross-Group team. Although much needs to be done, seeing extremely challenging objectives beginning to be surmounted is extremely rewarding.

Perhaps most satisfying of all is driving a change in our engagement across the business. Looking back on the year some of my most memorable moments involved getting out to each of the front-line call centres and offices that do so much of the critical support and back office work. I get out on patrol once or sometimes twice a month, from Aberdeen to Plymouth, from Belfast to Cardiff and much more – to meet members and patrols. Getting out of my own office for me is invigorating – it reminds me of the hard work around the business – that above all else the AA is one team, pulling together for each other.

Roadside

Our Roadside business delivered a resilient performance in FY19. We attended to over 3.73m breakdowns, which was 1% higher than the previous year and 3% higher than the average over the last 5 years. Our overall repair rates were 76.6% (2018: 77.3%) and we achieved a call-to-arrive time of 43 minutes (2018: 50 minutes). Despite the higher call-outs, we delivered outstanding customer service and were pleased to be the outright winner of What Car? breakdown provider in 2018 and to be recognised by Which? as the only breakdown assistance provider in 2018 to receive a 5 star rating for 'repair at roadside'.

One of the biggest challenges facing our Roadside business over the past few years has been our ability to manage our costs during periods of peak demand when we increase our reliance on third-party garaging to supplement our own patrol network. In recent years, this additional cost has led to a downward revision of our profit guidance. The fact that this did not happen in FY19 demonstrates the resilience we are putting into the organisation which enables us to absorb these additional costs.

Looking ahead, the additional investments that we have made to our people in the front line should help to lower our reliance on third-party costs and deliver a higher level of service for our members and customers.

B2B

Within B2B, we were pleased to have retained or extended all our key contracts due for renewal in FY19 including Lloyds Banking Group (LBG), Volkswagen Group (VWG), Ford and JLR, in line with our commercial expectations. Our success was all the more impressive, given that a significant proportion of all our contracts were up for renewal or extension. Not only did we defend our base, we also won new B2B contracts in the year. For example, we were delighted to have won a contract to provide onward mobility solutions for JLR customers through our unique 'Agile' digital product developed in-house and to have won a three-year contract with Arval, a significant win for the AA in the Fleet and Leasing sector. Key to these renewals, extensions and wins has been our approach to innovation and the broad range of digital and driving services we will be able to offer our partners.

B2C

As previously indicated, whilst we effect the turnaround of the Roadside business, our paid membership base did decline by c.2% to 3.21m (2018: 3.29m) and retention fell by c.2% to just above 80% (2018: 82%). The decline in paid personal memberships was principally due to our previously announced decision to re-phase our summer marketing campaign until the steps taken to increase service resilience could be completed. Looking ahead, with the improvements to our wider membership offering, a fully invested marketing plan, a new eco-system of products and services and new system improvements it remains our intention this year to achieve a broadly flat personal membership base and return this to growth in FY21.

Beyond breakdown

In February 2019, we successfully completed the acquisition of Prestige Fleet Servicing (Prestige), a profitable and growing technology-led supplier of Service, Maintenance and Repair (SMR) services to fleet and leasing companies. The SMR market plays a key role in addressing a driver's planned and unplanned needs and represents a significant opportunity for the AA to grow new revenue streams without incurring significant capital expenditure.

The acquisition will give the AA a strong and profitable digital platform from which to build a credible presence in SMR, starting initially with fleet and leasing companies and supporting our OEM partners with the intention of ultimately providing a premium product offering for our personal members. The acquisition will also deliver synergies from the integration of the AA and Prestige garage networks.

Digital and new product innovation
We continue to build on our leading position in digital mobile platforms, including the AA breakdown app which remains number one against our competitors. We have some exciting plans this year to extend our digital breakdown journeys using new platforms, to build new digital and data products and services for our B2B partners and also to launch some truly innovative new products and services for our B2C customers.

We made good progress with testing the market for connected car breakdown solutions in FY19, initially through the roll-out of our award-winning product, Car Genie. In FY20, we will be integrating our telematics offering into our Roadside membership for customers that want the most innovative product available. This product, called 'Smart Breakdown', will enable customers who break down to know immediately the cause of the problem, for us to inform them immediately that we know they have broken down and what the problem is, for us to show them where the patrol is that will be able to repair the problem and who will also know the issue before they arrive to meet the member – and for our service centres to know the issue if the customer decides to call us. We launched this product to new AA customers in January, and whilst only at an early stage the feedback so far is very encouraging.

Insurance

Our Insurance business continued to perform strongly in FY19. We grew our motor book by 16% to 731,000 policies. Of this amount, 73,000 policies related to non-members, a new motor insurance scheme for our in-house underwriter targeting new customers. Our home portfolio managed to return to growth, ahead of expectations, and increased modestly by 1.5% to 830,000 policies.

Alongside growth of the new customer portfolio, we are actively developing strategies to increase our online competitiveness and cross-sell capabilities to increase the penetration levels within our existing member base. We are also looking to insure younger drivers through a telematic based technology which launches later this year.

We expect to benefit from using the data collected, prior to pricing and insuring customers, allowing for compelling telematics economics.

Capital discipline and operational efficiency
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.

We have optimised our capital allocation processes this year to ensure there is greater consistency and rigour behind our investment decisions. This is an important discipline as we continue to embark on our growth plans. We have also made a number of changes to our operational cost base including reorganising and simplifying our management structure. The new Executive Team is committed to working collaboratively and promoting a culture of innovation whilst ensuring we have the right cost base to return this business to profitable growth.

Well positioned to execute our strategy
The outlook for our business is brighter than it has been for some time. It is early days but I am confident our business is now more resilient operationally, that we have the right team in place; strong core financial disciplines; and a more engaged workforce, focused on delivering exciting new products, fantastic service for our customers and sustainable growth for our shareholders.

Strategy update

Innovate and grow Roadside

Our Roadside initiatives cover five core areas:

1. Ongoing innovation to differentiate our products and services;
2. Growing our base with new segments;
3. Digital adoption and innovation to drive broader member engagement;
4. Membership systems to drive retention; and
5. Transform our breakdown service to be fully connected.

We will measure our success against these objectives through the following measures:

- Return to membership growth in FY21
- 50% of all members using digital breakdown solutions
- 20% reduction in breakdowns reported through contact centres

1. Ongoing innovation to differentiate our products and services
A key focus of our strategy over the next few years will be to differentiate ourselves from our competition through continuous innovation and product development. This will enable to us to consolidate and build on our trusted and market leading position in roadside assistance.

During the first half of FY19, we launched our onward mobility solution with Jaguar Land Rover (JLR) called Agile, the first integrated technology of its kind in the UK. In instances where the AA knows that a vehicle is unlikely to be repaired at the roadside, we have developed bespoke technology that enables the dedicated JLR technicians to keep these customers mobile by arranging to collect and deliver a like-for-like vehicle to the customer at the point of breakdown. Customers have the peace of mind of knowing that they can continue with their journey, while our JLR technicians take care of repairing their vehicle and arranging to send it for repairs to a local garage. In FY20, we will extend this onward mobility solution to other B2B partners by integrating into the Enterprise Rent-A-Car network and will also look to incorporate this as a premium add-on capability for our personal members moving forward.

In March 2019, we launched a new technical services business within the AA, with the aim of providing a nationwide service for the automotive industry and UK drivers to help with issues such as: vehicle recall campaigns, mobile service, maintenance and repair for the fleet industry and onsite technical support for our OEM partners.

Lloyds contract renewal
The award of the Lloyds Banking Group (LBG) contract renewal in February 2019 was a significant moment for the Group. The contract, which will renew for five years from 1 April 2019, is the largest roadside assistance programme in the UK and will service approximately 2.4m customers. As part of our unique offering to LBG, we will offer Packaged Bank Account (PBA) customers access to a range of digital driving services on top of the high-quality breakdown service they come to expect from the AA. This will generate additional revenue streams for both organisations. The AA will adapt its market leading and award-winning breakdown app, with bespoke functionality for LBG providing its customers with the ability to report and track their breakdown digitally on their phones or tablets, which will significantly enhance their breakdown experience. The app will also give LBG's customers access to a wide range of exciting products and services.

We continue to develop a range of innovative digital solutions to make Britain's driving life better. A strong endorsement of this was the User Experience UK award for Best Effect of Business Goals,

which we were awarded in FY19. The award was given to the AA for a new service we are currently developing which will allow customers who do not have the app to be able to visit the AA's website (theaa.com) on any device at the roadside to quickly request help and then track the patrol's progress in getting to them. This will significantly help those customers who do not have access to the app get a streamlined, accessible and driver-friendly breakdown experience.

Our approach to innovation, partnerships (including ARC Europe Group) and outstanding service delivery were all central to us retaining and extending all our key contracts in FY19 including LBG, JLR, VWG and Ford. In addition, the AA won a three-year contract with Arval, a significant win for the AA in the Fleet and Leasing sector.

2. Growing our base with new segments
In addition to our traditional 50-year old plus personal member demographic, we are looking to diversify our member base to new segments including younger audiences who, while heavily car reliant, are less aware of the importance and value of good quality breakdown cover.

We are using very different lead messages and strategies for reaching these consumers (including for example, focusing on flexible monthly subscriptions), appealing to their need for ease and simplicity in keeping their day on track. A key enabler of this will be our app which will give our members access to a range of products and services that makes car ownership simpler and rewards members for being with us. This will, over the longer term, have the dual benefit of increasing the paid membership base and retention levels on a sustainable basis.

3. Digital adoption and innovation to drive broader member engagement
The highly rated AA app continues to perform strongly, and we have over a third of our members registered. The app is currently used in 31% of the personal breakdowns that we service up from 29% last year. In aggregate, 54% of our personal breakdowns are now handled via our digital channels.

We developed and launched a number of new products on the app in FY19. These included features designed to facilitate better user experience for those members who break down as well as promote active daily usage of the app through our loyalty programme and broad range of products and services that can be purchased, including insurance and buying and selling a car through our AA Cars platform. Our loyalty programme, in particular continues to grow strongly, with 1.7m redemptions, up more than 45% since last year.

We have an exciting range of new products lined up for the app in FY20 and beyond which will help position the AA at the forefront of car ownership solutions for our personal members and B2B customers. These will generate additional sources of revenue for the business and help drive significant cost savings.

4. Membership systems investment to drive retention
During the year, we made good progress on CATHIE, our new membership IT system.
We made good progress with building a fit for the future tech estate in FY19, including CATHIE, our new membership system. CATHIE is already delivering better pricing sophistication, better renewals and better customer journeys. We launched new digital sales journeys and completed the delivery of renewal capabilities, as well as investing significantly in both our website and our app and laying the foundations for new product launches. We are seeing sustained improved online revenue for business sales on CATHIE.

We now have nearly 300,000 policies live on CATHIE, and a significant amount of new business is being transacted on CATHIE, with about 6,000 policies a week being written on the new system. We expect to deliver a continued stream of improvements and new features to the CATHIE system through FY20 and outer years, including the continued phased migration of existing policies which we

commenced in Q4 FY19, with focus being on continuing to improve retention benefits. It is a complex process to migrate policies, therefore, we will continue this into FY21 in order to minimise risk to our members and business.

The continued investments in the already deployed marketing, pricing and fulfilment capabilities, as well as our online offerings including our breakdown app and continued migration of older policies, will give us important capabilities to improve retention performance, return our membership base to growth, drive cost reduction and enable new and bundled propositions, such as Smart Breakdown.

5. Transform our breakdown service to be fully connected
As cars become more technologically advanced, we need to develop our digital and technical capabilities to enable us to position ourselves at the forefront of connected breakdown recovery for personal members and business customers.

This should not only help us deliver a premium level of service to our members but will also help us to lower our costs through better resourcing of our operational base.

We have made good progress in testing the market for connected car breakdown solutions in FY19 initially through the roll-out of our award-winning product, Car Genie. As at 31 January, approximately 28,000 units had been distributed to our personal member base and it continues to help predict up to one-third of breakdowns before they occur.

In FY20, we will build on our connected car capabilities through the roll-out of Car Genie via our Smart Breakdown proposition. This will initially be rolled out to new members through our digital sales journey and will then be extended to existing members by the end of the year. We will also look to extend our onward connected mobility solution 'Agile' developed for JLR with other B2B customers. The data from our connected car solutions will provide us with useful insight to better manage our workload and costs during periods of peak demand. It will also help accelerate our telematic insurance capabilities, which is planned as a new area of growth for our insurance underwriting business.

Accelerate growth in Insurance

Our Insurance business performed strongly in the year supported by ongoing investments in the broker and our in-house underwriter.

During the year, we grew the motor book by 16% and ahead of expectations we successfully grew the home book by 1.5%. While additional growth will result in a short-term negative impact on EBITDA due to marketing acquisition costs, it will help deliver long-term growth. We are targeting c.2m motor and home policies by FY23 and growth in profitability.

New insurance innovation
We expect to benefit from using the data collected from Car Genie, prior to pricing and insuring customers, allowing for compelling telematics economics.

The integration of our digital and connected car strategy across our Roadside and Insurance businesses will enable a leading member offering through its simplicity and as a straightforward solution for motoring needs.

We believe connected car offerings will unlock new propositions for younger, more digitally-focused drivers. The Driving School also gives us strong positioning with younger driver segments, reaching c.100,000 customers per year.

In addition, we will look to add digital capability across our motor and home products through self-service capability and shortened purchasing journeys across our web and app based channels.

Driving more competitive premiums
Our proprietary member data is our competitive advantage across our motor and home book and gives us the confidence that our planned programme of opex and capex investments (including IHP) will help deliver risk adjusted growth for the underwriter and broker.

During the year, total motor policies grew by 16% to 731,000 and the home policy book grew slightly by 1.5% to 830,000.

In FY21, we expect to broaden our base of panel members across the motor and home book. This will increase the competitiveness of the broker and will help to drive additional volume growth. We will also continue with the roll-out of IHP across the remaining motor panel base and commence the roll-out of IHP within our home panel base. This, alongside additional investments in our pricing systems, will mean that we are well positioned for growth across both the motor and home book.

Broaden footprint to include non-members and younger customers
During the year, our in-house underwriter commenced underwriting motor insurance to non-members through a new reinsurance relationship with Munich Re.

We successfully onboarded 73,000 non-members in FY19 achieving overall loss ratios in line with expectations. We expect the non-member base to continue growing strongly in FY20. Although the non-member portfolio will be a significant driver of growth in the motor book for our in-house underwriter, we are actively developing strategies to increase our online competitiveness and cross-sell capabilities to increase the penetration levels within our existing member base. We are also looking to insure younger drivers through a telematic based technology which launches later this year.

Operational and service excellence

Total breakdowns during the year were 3.73m, an increase of 1% compared to the prior year. This was higher than our expectations and was 3% higher than the average over the past five years. The additional demand for our services resulted in increased reliance on third-party garaging to supplement our own patrol availability. This is both costlier to service from a breakdown perspective and generally leads to a lower level of service for our members.

To counter this and as part of our strategy to build operational resilience we invested in our front line in FY19 and were pleased to have achieved our target of recruiting an additional 65 new patrols and more than 200 planned contact agent staff. We also made good progress in developing our strategies to monetise more from our third-party garage referrals and channelling more breakdowns directly through our digital interfaces including our app and website. In the longer term, increased utilisation of the breakdown services drives brand awareness and retention.

In addition to building resilience through investment in our people at the front line, we also made a number of key senior hires and implemented several operational initiatives while maintaining strict cost discipline. We have reorganised and simplified our management structure and reporting lines across our operational base to promote greater transparency and collaboration.

In FY20, we will be implementing a number of improvements to our business and planning process to drive greater focus on value creation and cost structure.

Over the longer term, we expect to achieve the following targets for our Roadside operations:

- Absorb inflation in FY20 and FY21
- Improve consistency of call-to-arrive times
- Increase consistency in call handling, answering 80% of calls in 20 seconds
- Achieve 10% growth in ancillary sales

Create a high-performance culture

Driving a high-performance culture is critical to realising our strategy because our people are a key enabler of our business.

The results from the last employee survey highlighted that we need to work harder as a leadership team to communicate better with all our employees and do more to promote development, recognition and collaboration across the organisation. This will take time to achieve; however, we are making good progress as highlighted by the results of the recent snapshot survey that was completed in Q4 2018. We will be running the employee survey annually and we will share the results with all our employees and involve them in the ongoing action planning process.

Performance review

Roadside

	Year ended Jan 19	Year ended Jan 18
Revenue (£m)	841	814
Trading EBITDA (£m)	283	320
Trading EBITDA margin (%)	34	39
Operating profit before exceptional items (£m)	209	243
Paid personal Members (m)	3.21	3.29
Average income per paid personal members[1] (£)	162	157
Business customers (m)	9.79	9.93
Average income per business customer[1] (£)	21	20
Number of breakdowns (m)	3.73	3.68
Driving instructors	2,412	2,742

1. Last 12 months

Revenue grew 3% to £841m in the year driven largely by the strong performance of the B2B business as well as the benefit of consolidating the results of AA Cars. Trading EBITDA declined by 12% in line with our guidance reflecting the impact of additional strategic opex investments to position the business for long-term growth. Trading EBITDA margin decreased from 39% to 34% reflecting the EBITDA decline.

Roadside Assistance

Within Roadside Assistance, trading revenues rose 3% to £841m driven by the additional pay-for-use B2B revenue as well as the benefit of consolidating the results of AA Cars.

Personal memberships
During the year, the paid membership base declined by c.2% to 3.21m (2018: 3.29m) and retention fell by 1.6% to 80.3% (2018: 81.6%).

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 to £162, up 3% since last year. 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 to business

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.

Operational review

Total breakdowns increased in the year by 1% to 3.73m. This was 3% higher than the average over the last 5 years due to the unprecedented weather conditions during the first half of the year. This resulted in increased costs of third-party garaging to supplement our own patrol availability which was partially offset by the additional revenue from our pay-for-use B2B contracts as noted above. To counter this, we invested in our front line and were pleased to have achieved our target of recruiting additional patrols and contact agent staff in FY19. We continue to develop strategies to enable us to monetise more referrals and better manage our workload through our digital channels. In the longer term, increased utilisation of the breakdown services drives brand awareness and retention.

More than 1 million members are now registered for the app and it is used in 31% (FY18: 29%) of the breakdowns that we service. During the year, we developed and launched new functionalities into the app designed to facilitate a smoother breakdown experience for our members, promoted additional cross-sell opportunities into other products such as AA insurance and broadened our loyalty programme. As a result of the continued growth of existing and new partnerships, overall redemptions in our loyalty programme increased by 45% in the year to 1.7m.

We have an exciting range of new products lined up for the app in FY20, including migrating key elements of the Car Genie app, thereby allowing our members to fully benefit from an integrated app platform, which will lead to higher levels of customer engagement. We will also be launching a new service to allow customers who do not have the app to be able to visit the AA's website on any device

at the roadside to quickly request help and then track the patrol's progress in getting to them. Our digital led investments will in the longer-term help position the AA at the forefront of car ownership solutions for our members and customers.

We continue to make good progress with testing the market for connected car breakdown solutions. In FY20, we will continue the roll-out of Car Genie through our connected car membership proposition to new members through Smart Breakdown. The data from Car Genie will provide us with useful insight to better manage our workload and costs during periods of peak demand. It will also help accelerate our telematic insurance capabilities which is a new area of growth for our underwriting business. Longer term, we hope to leverage our existing relationships with OEMs to deliver a holistic connected car solution which we expect to drive meaningful revenue growth.

Trading EBITDA (before allocation of Head Office costs) fell by 6.7% to £322m (2018: £345m). This was largely due to the additional strategic opex investments including recruitment of additional patrols and call-centre staff 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% to 41%.

Driving Services

Revenue declined by 6.0% to £63m (2018: £67m). This was largely due to the 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. Overall driving instructor franchises decreased from 2,742 to 2,412 in the prior year reflecting 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 (2018: £22m) 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% to 27%.

Insurance

	Year ended Jan 19	**Year ended Jan 18**
Revenue (£m)	138	145
Trading EBITDA (£m)	58	71
Trading EBITDA margin (%)	42	49
Operating profit before exceptional items (£m)	50	61
Total motor and home policy numbers in force[1] (000s)	1,561	1,447
Average income per policy[2] (£)	69	75
Total Motor policies (000s)	731	629
Total Motor underwritten (000s)	339	223
Total Home policies (000s)	830	818
Total Home underwritten (000s)	259	184
Financial Services products[3] (000s)	112	142

1 Total Motor and Home policies sold in the last 12 months by our insurance broker.
2 Motor and Home only.
3 Financial Services products includes the number of credit cards activated, loans drawn down, mortgages and savings accounts opened.

Insurance revenue (which includes the broker and in-house underwriter) fell by 5% to £138m. The strong growth in revenue from the in-house underwriter helped to offset the lower revenues from the Home Emergency Services consumer business, which we sold in January 2018. Excluding the Home Emergency Services consumer business, the Insurance segment generated revenues of £135m in the year, compared to £132m last year.

In line with our expectations, Trading EBITDA fell 18% to £58m as a result of higher acquisition marketing spend needed to position the business for long-term growth. Trading EBITDA margin declined from 49% to 42%, due to the additional acquisition marketing spend by the broker as well as the increase in the lower-margin underwriter revenue.

Insurance Services (including broking and Financial Services)

Trading Revenue fell in line with expectations by 11% to £119m. We grew our motor book by 16% to 731,000 policies (2018: 629,000), benefiting from increased acquisition marketing spend, incremental sales and renewals through our 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 slightly in the year to 830,000 (2018: 818,000). 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 to £69 (2018: £74), 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 22% to £62m (2018: £79m) 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.

Insurance underwriting

Trading Revenue for our underwriting business grew strongly in the year to £19m compared to £12m in the prior year. Gross earned premiums were £31m (2018: £38m). Deferral of broker commissions amounted to a reduction in revenue of £1m (2018: £1m). Trading Revenue is reported after accounting for the broker deferral adjustment, where the broker commission is recognised over the life of the policy along with the underwriter premium for policies underwritten by our in-house underwriter.

In line with our strategy to drive growth of the insurer using our proprietary data to deliver more competitive premiums, we grew the motor book from 223,000 to 339,000 and the home book from

184,000 to 259,000. Looking ahead, a significant proportion of our growth will come from a new motor insurance scheme for non-members which we commenced in May 2018 through a new reinsurance relationship with Munich Re. Alongside increased penetration within the existing base, we remain on-track to deliver strong growth for the insurer.

Our Combined Operating Ratio (COR) was ahead of our long-term target of 95%. Net claims paid during the year were £15m (2018: £10m).

Trading EBITDA was up £5m to £6m (2018: £1m) due to the higher ceding commission associated with driving the growth of the in-house underwriter.

From 20 April 2017 the existing motor portfolio (excluding the new non-members proposition) moved from an 80% quota share reinsurance arrangement to an 80% coinsurance arrangement. Under a coinsurance agreement, only the net 20% of premium is reported in the accounts compared to the reinsurance agreement where premiums are presented gross. This results in gross earned premiums reducing even though the policy book is growing. The new motor portfolio for non-members which commenced in May 2018 has been agreed under a quota share reinsurance contract and therefore gross earned premiums will increase significantly, offsetting the above reduction. Home insurance continues to be covered through quota share reinsurance contracts.

The in-house underwriter business remains well capitalised under the Solvency II capital requirements which came into effect on 1 January 2016. As at 31 January 2019, the solvency coverage headroom was 50% over requirement and can be funded from the profits of the underwriter and AA plc available cash.

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. Insurance is made up of our Insurance Services and Insurance Underwriting 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.

Trading revenue

	2019 £m	2018 £m
Roadside Assistance	**778**	747
Driving Services	**63**	67
Roadside Revenue	**841**	814
Insurance Services	**119**	133
Insurance Underwriting	**19**	12
Insurance Revenue	**138**	145
Trading Revenue	**979**	959

Trading EBITDA

	2019 £m	2018 £m
Roadside Assistance	**322**	345
Driving Services	**17**	22
Head Office costs	**(56)**	(47)
Roadside Trading EBITDA	**283**	320
Insurance Services	**62**	79
Insurance Underwriting	**6**	1
Head Office costs	**(10)**	(9)
Insurance Trading EBITDA	**58**	71
Trading EBITDA	**341**	391

Why we use Trading EBITDA

We use an adjusted performance measure in managing the business which is Trading EBITDA. Importantly, this is a key measure defined in our debt documents and used in the calculation of our debt covenants so it is of great significance to our debtholders. Given the significance of the Group's borrowings, this is then also very relevant information to shareholders. See note 15 where we explain the debt structure and covenant arrangements and headroom.

Trading EBITDA adjusts operating profit for the following items:

- Share-based payments
- Pension service charge adjustment
- Amortisation and depreciation
- Contingent consideration remeasurement movements
- Exceptional operating items

We are required to remove each of these in calculating Trading EBITDA for the debt covenants. In addition, the adjustment for share-based payments was implemented at a time when the original MVP schemes were launched and the charge became significant. The pension service charge adjustment is made because it does not reflect underlying trading or cash contributions paid. Amortisation and depreciation are removed to calculate any standard EBITDA measure. The contingent consideration remeasurement movement is adjusted as it is a secondary impact of trading rather than part of

underlying trading itself. Finally, exceptional items are items which by virtue of their size or incidence we separately disclose in order to improve a reader's understanding of the financial statements. In the current year, exceptional items related to a one-off pension past service cost of £22m as a result of Guaranteed Minimum Pension (GMP) equalisation, 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, onerous property costs of £1m, gains on disposal of fixed assets of £1m, impairment of intangible fixed assets of £5m and customer compensation costs of £2m.

The reconciliation from Trading EBITDA to operating profit before exceptional items includes a divisional apportionment to Roadside and Insurance for share-based payments, pension service charge adjustments, contingent consideration remeasurement gain and amortisation and depreciation.

Operating profit

	2019 £m	2018 £m
Trading EBITDA	**341**	391
Share-based payments	**(5)**	(7)
Of which:		
Roadside	**(4)**	(6)
Insurance	**(1)**	(1)
Pension service charge adjustment[1]	**(5)**	(10)
Of which:		
Roadside	**(5)**	(8)
Insurance	**–**	(2)
Amortisation and depreciation	**(73)**	(70)
Of which:		
Roadside	**(66)**	(63)
Insurance	**(7)**	(7)
Contingent consideration remeasurement gain	**1**	–
Of which:		
Roadside	**1**	–
Operating profit before exceptional items	**259**	304
Exceptional operating items	**(40)**	3
Operating profit	**219**	307

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

Financial review

Group revenue

	2019 £m	2018 £m
Roadside	**841**	814
Insurance	**138**	145
Trading Revenue	**979**	959
Exceptional revenue provision	**–**	1
Group Revenue	**979**	960

Trading Revenue grew 2% to £979m, compared with £959m last year, reflecting a steady increase in performance of both the Roadside and Insurance segments.

Roadside Trading Revenue increased by £27m to £841m (2018: £814m). This was principally due to the additional pay-for-use revenue in B2B as well as the benefit of consolidating the results of AA Cars which performed solidly in the year. Trading Revenue for Driving Services fell by £4m to £63m (2018: £67m) 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.

Insurance Trading Revenue fell by £7m to £138m (2018: £145m). This was a good performance considering the lower revenues generated from the Home Emergency Services consumer business, which we sold in January 2018. Excluding the Home Emergency Services consumer business, Insurance Trading Revenue grew 2% from £132m to £134m, reflecting the strong growth of the in-house underwriter. Looking ahead, we expect the investments in our insurance business to drive a significant growth in revenue and Trading EBITDA.

Group trading EBITDA

	2019 £m	2018 £m
Roadside	**283**	320
Insurance	**58**	71
Trading EBITDA	**341**	391
Trading EBITDA margin	**35%**	41%

In line with our guidance, Group Trading EBITDA fell by 12.8% to £341m (2018: £391m). This was largely due to the reduction in Roadside Trading EBITDA. Roadside Trading EBITDA declined by £37m to £283m reflecting a combination of higher planned strategic opex in our people, innovation and systems as well as additional unplanned costs from third party garaging due to the higher demand for our services during the year. In addition, some of the growth in Trading Revenue was from lower margin activities including AA Cars, sales of parts and publishing and merchandising.

The decrease in Insurance Trading EBITDA from £71m to £58m reflects the impact of the increased acquisition marketing spend by the broker in line with our strategy for growing our customer base, as well as the lower contribution from the Home Emergency Services consumer book.

Overall head office costs increased by £10m to £66m (2018: £56m) due to additional IT software costs and investment in key senior level hires to improve the resilience of the business. These costs have been directly allocated where it is possible to do this, all other costs are allocated based on a pro-rata share of revenue: £56m (2018: £47m) to Roadside and £10m (2018: £9m) to Insurance. Trading EBITDA margin reduced from 41% to 35% reflecting the impact of the additional strategic expenditure in our Roadside and Insurance businesses as well as the impact of higher costs from the additional demand for our services in our Roadside business.

Operating profit

Operating profit before exceptional items

	2019			2018		
	Roadside £m	**Insurance £m**	**Group £m**	Roadside £m	Insurance £m	Group £m
Trading EBITDA	**283**	**58**	**341**	320	71	391
Share-based payments	**(4)**	**(1)**	**(5)**	(6)	(1)	(7)
Pension service charge adjustment	**(5)**	**–**	**(5)**	(8)	(2)	(10)
Contingent consideration gain	**1**	**–**	**1**	–	–	–
Amortisation and depreciation	**(66)**	**(7)**	**(73)**	(63)	(7)	(70)
Operating profit before exceptional items	**209**	**50**	**259**	243	61	304
Exceptional operating items			**(40)**			3
Operating profit			**219**			307

Operating profit before exceptional items decreased by £45m to £259m, a year-on-year decrease of 15%. This reduction was largely driven by the £50m decline in Roadside and Insurance Trading EBITDA as well as the increase in amortisation and depreciation due to the investment in IT transformation and growth capital expenditure. Share-based payments reduced by £2m, reflecting the expiration of the second vesting period for the MVP B shares. The pension service charge adjustment decreased by £5m. Both share-based payments and the pension service charge adjustment have been allocated to segments.

Overall exceptional items increased to £40m from a credit of £3m last year due largely to the impact of the past service pension credit of £34m in FY18, due to the restructuring of the UK pension scheme and the cost of £22m in FY19 as a result of Guaranteed Minimum Pension (GMP) equalisation. Other exceptional operating items included £7m relating to business and IT transformation and a £5m impairment of intangible fixed assets.

Finance costs

	2019 £m	2018 £m
Interest on external borrowings	**127**	132
Finance charges payable under finance leases	**4**	6
Total ongoing cash finance costs	**131**	138
Ongoing amortisation of debt issue fees	**15**	10
Net finance expense on defined benefit pension schemes	**6**	10
Contingent consideration movements	**2**	–
Total ongoing non-cash finance costs	**23**	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	**6**	1
Exceptional finance costs	**13**	9
Total finance costs	**167**	167

Total finance costs remained stable at £167m, with benefits from lower interest on external borrowings of £5m, lower interest on finance leases of £2m and lower interest on defined benefit pension schemes of £4m. There was also a gain from the transfer of £8m (2018: £2m) from the cash flow hedge reserve for the extinguishment of cash flow hedges as part of the refinancing in July 2018. These benefits were offset by the early repayment penalties of £15m (2018: £10m) in relation to the early repayment of £300m of A3 notes and an increase of £5m in debt issue fees written off as part of the refinancing completed in July 2018. In addition, there was a £5m increase in amortisation of debt issue fees.

Taxation

The tax charge for the year fell to £11m (2018: £30m) principally due to the lower profitability. The tax charge is made up of a current tax charge of £8m (2018: £23m) and a deferred tax charge of £3m (2018: £7m). The effective tax rate was 20.8% (2018: 19.1%). As the Group is almost entirely UK based, we have not been materially affected by the recent legislation restricting the deductibility of interest by reference to UK EBITDA.

Profit and earnings per share

In line with our overall expectations, profit after tax fell to £42m (2018: £111m) and basic earnings per share fell by 11.3p, from 18.2p to 6.9p.

Adjusted underlying profit after tax and adjusted basic and diluted earnings per share fell to £91m (2018: £133m) and 14.9p (2018: 21.8p) respectively. The adjustments included exceptional operating items of £40m; pension service charge adjustment of £5m, share-based payments of £5m and exceptional finance costs of £13m.

Reduced pension deficit improves balance sheet position

Net liabilities decreased in the year by £65m. The largest movement was due to the decrease of £22m in the defined benefit pension scheme liability resulting from changes to macroeconomic led assumptions including increasing discount rates, falling long-term inflationary expectations, changes in the demographic assumptions (reflecting the latest outlook for mortality rates) and Group contributions paid into the schemes. These were partially offset by the impacts of the GMP equalisation exercise and the bulk annuity purchase as explained in more detail below.

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 Scheme 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. For further details, please see note 17.

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.

Cash flow and liquidity

Free cash flow

	2019 £m	2018 £m
Trading EBITDA	**341**	391
Working capital excluding provisions and pensions	**(26)**	(11)
Pension deficit reduction contributions	**(24)**	(21)
Other items	**5**	9
Cash flow from continuing operating activities before exceptional items and taxation	**296**	368
Exceptional items and tax paid	**(38)**	(52)
Capital expenditure including capital payments on finance leases less proceeds from sale of fixed assets	**(104)**	(86)
Interest on borrowings and finance leases less interest receivable	**(132)**	(140)
Acquisitions and disposals	**(10)**	1
Debt refinancing activities	**(34)**	(96)
Free cash flow to equity	**(22)**	(5)
Dividends paid	**(12)**	(56)
Net decrease in cash and cash equivalents	**(34)**	(61)
Cash conversion[1] (%)	**87**	94

1 Cash flow from continuing operating activities before exceptional items and taxation as a percentage of Trading EBITDA.

Cash conversion remained healthy at 87% (2018: 94%) and was lower than the prior year due to the impact of working capital. Cash flow from continuing operating activities before exceptional items and taxation fell during the year to £296m (2018: £368m) driven by the decline in Trading EBITDA. Working capital excluding pensions and provisions increased to £26m compared to £11m in the prior year. Pension deficit reduction payments of £24m (2018: £21m) were in line with the agreement with the Pension Trustees in June 2017. Total capital expenditure (including finance lease capital payments and net of proceeds from sale of fixed assets) in the year was £104m (2018: £86m), in line with our guidance. Of this amount, £30m relates to the IT transformation capital expenditure, £13m relates to growth capital expenditure across our Roadside and Insurance businesses, £39m relates to maintenance capital expenditure and £22m relates to finance lease capital payments net of proceeds from the sale of fixed assets.

Free cash flow to equity for continuing operations was an outflow of £22m (2018: outflow of £5m). This was slightly below our expectations due to the impact of the refinancing in July 2018; however, as we move towards the end of the original IT transformation programme in FY20 and a more normalised period of capex spend beyond FY21, we are confident that we can achieve meaningful deleveraging in line with our medium to long term target range of 3 to 4 times.

The debt refinancing in July 2018 contributed to a net cash outflow for the year of £34m (2018: £61m outflow). This resulted in a reduction to the Group's cash balance to £116m (2018: £150m). As part of the refinancing in July 2018, 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. Cash is held in AAA money market funds for easy access and high liquidity.

We are required to hold segregated funds as "restricted cash" to satisfy regulatory requirements governing our regulated businesses, including the Insurance Underwriting business. These restricted cash balances have increased to £36m (2018: £29m) principally due to the growth in the Underwriting business.

Interest cover is calculated as the ratio of Trading EBITDA to total ongoing cash finance costs (see note 5) and was 2.6x (2018: 2.8x).

Capital management

The Group capital is a combination of net debt and equity. As at 31 January 2019, net debt was £2.7bn while the equity market capitalisation was £0.5bn.

The Directors seek to achieve an appropriate balance between the higher return that is possible with borrowings and the advantages and security of equity funding. We aim to reduce both the amount of net debt and the cost of servicing it over time with the overall aim of lowering net debt to EBITDA to between 3 to 4 times in the long term. The inevitable consequence of the declining profitability in FY19 was that our leverage ratio increased during the year to 8.0x as at January 2019. However, we remain within our covenants. We intend to reduce this over time by growing EBITDA and generating cash to pay down debt.

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 plc, 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.

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.

Post year-end, on 28 February 2019, as part of our commitment to proactive debt management we completed the successful buyback of 22,896,000 of B2 secured notes for an aggregate cash value of £20m using cash at AA plc.

Since the IPO in June 2014 we have reduced gross borrowings by £623m and the annual debt interest cost on our borrowing by c.£80m excluding the hedging costs.

Capital structure

	Expected maturity date	Interest rate %	Principal £m
Class A3 notes (forward starting new STF available)	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 A2 notes	31 July 2025	6.27	500
Class B2 notes	31 July 2022	5.50	570
Total borrowings		**4.52**	**2,770**
Finance lease obligations			**61**
Cash and cash equivalents			**(116)**
Total net debt			**2,715**
Equity (valued at close on 31 January 2019)			**512**
Total capital			**3,227**

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+.

Net debt

Year ended 31 January	**2019 £m**	2018 £m
Senior Term Facility	**–**	250
Class A notes	**2,200**	1,950
Less: AA Intermediate Co Limited group cash and cash equivalents	**(20)**	(50)
Net Senior Secured Debt[1]	**2,180**	2,150
Class B2 notes	**570**	570
Finance lease obligations	**61**	64
Net WBS debt[2]	**2,811**	2,784
Less: AA plc cash and cash equivalents[3]	**(96)**	(100)
Total net debt	**2,715**	2,684
AA plc Trading EBITDA	**341**	391
AA Intermediate Trading EBITDA[4]	**337**	393
Net debt ratio[5]	**8.0x**	6.9x
WBS leverage ratio[6]	**8.3x**	7.1x
Senior leverage ratio[7]	**6.5x**	5.47x
Class A free cash flow: debt service[8]	**2.6x**	3.3x
Class B free cash flow: debt service[9]	**1.9x**	2.4x

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

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

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

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

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

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

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

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

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

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

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

The Class A and Class B2 notes therefore place restrictions on the Group's ability to upstream cash from the key trading companies to pay external dividends and undertake those finance activities which are not restricted.

Key cash release metrics

	2019	2018
Net senior leverage (AA Intermediate Co Limited group)[1]	**6.5x**	5.47x
Excess cash flow[2]	**£91m**	£91m
Fixed charge cover ratio[3]	**2.6x**	3.0x
Consolidated net income[4]	**£267m**	£208m

Note that the above table relates to the financial activities of the AA Intermediate Co Limited group and therefore the metrics therei

n will differ from those of the AA plc Group.

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

2 Cumulative free cash flow, since 1 February 2013, reduced by dividends paid by the AA Intermediate Co Limited group and adjusted for items required by the financing documents.

3 Ratio of fixed finance charges to Trading EBITDA.

4 Cumulative profit after tax, since 1 May 2013, adjusted for items required by the financing documents and reduced by dividends paid by the AA Intermediate Co Limited group.

Dividends

Following the interim dividend payment of 0.6p per share, the Board recommends a final dividend of 1.4p per share in respect of FY19 subject to approval by shareholders at the forthcoming AGM. Total dividends for FY19 are therefore expected to be 2.0p per share.

We will continue to review our dividend policy in light of our plans for future growth, the operation of the dividend gating covenant under the Whole Business Securitisation and the levels of cash retained in the business.

Consolidated income statement

	Note	for the year ended 31 January 2019 £m	2018 £m
Revenue	2	**979**	960
Cost of sales		**(399)**	(360)
Gross profit		**580**	600
Administrative & marketing expenses		**(361)**	(292)
Share of loss of joint ventures and associates, net of tax		**-**	(1)
Operating profit		**219**	307
Finance costs	5	**(167)**	(167)
Finance income		**1**	1
Profit before tax		**53**	141
Tax expense	6	**(11)**	(30)
Profit for the year		**42**	111

Earnings per share from profit for the year

	Note	2019 pence	2018 pence
Basic from total operations	7	**6.9**	18.2
Diluted from total operations	7	**6.9**	18.2

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

Consolidated statement of comprehensive income

	Note	for the year ended 31 January **2019** **£m**	 2018 £m
Profit for the year		**42**	111
Other comprehensive income on items that may be reclassified to the income statement in subsequent years			
Exchange differences on translation of foreign operations		**-**	(1)
Effective portion of changes in fair value of cash flow hedges		**(6)**	8
Tax effect	6	**1**	(3)
		(5)	4
Other comprehensive income on items that will not be reclassified to the income statement in subsequent years			
Remeasurement gains on defined benefit schemes	17	**30**	120
Tax effect	6	**(5)**	(21)
		25	99
Total other comprehensive income		**20**	103
Total comprehensive income for the year		**62**	214

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

Consolidated statement of financial position

	Note	as at 31 January 2019 £m	2018 £m
Non-current assets			
Goodwill and other intangible assets	8	**1,331**	1,300
Property, plant and equipment	10	**123**	127
Investments in joint ventures and associates		**5**	8
Other receivables	11	**-**	3
Deferred tax assets	6	**22**	31
		1,481	1,469
Current assets			
Inventories		**4**	7
Trade and other receivables	11	**223**	201
Cash and cash equivalents	12	**116**	150
		343	358
Assets classified as held for sale		**6**	-
Total assets		**1,830**	1,827
Current liabilities			
Trade and other payables	13	**(511)**	(528)
Current tax payable		**(3)**	(10)
Provisions	16	**(3)**	(13)
		(517)	(551)
Non-current liabilities			
Borrowings and loans	14	**(2,724)**	(2,736)
Finance lease obligations		**(12)**	(16)
Defined benefit pension scheme liabilities	17	**(218)**	(240)
Provisions	16	**(4)**	(4)
Deferred consideration	13	**(10)**	(11)
Insurance technical provisions		**(30)**	(24)
		(2,998)	(3,031)
Liabilities classified as held for sale		**(5)**	-
Total liabilities		**(3,520)**	(3,582)
Net liabilities		**(1,690)**	(1,755)
Equity			
Share capital		**1**	1
Share premium		**408**	406
Own shares		**(31)**	(29)
Cash flow hedge reserve		**-**	5
Retained earnings		**(2,068)**	(2,138)
Total equity attributable to equity holders of the parent		**(1,690)**	(1,755)

Signed for and on behalf of the Board on 2 April 2019 by

Simon Breakwell — Chief Executive Officer

Martin Clarke — Chief Financial Officer

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

Consolidated statement of changes in equity

	Attributable to the equity holders of the parent						
	Share capital £m	Share premium £m	Own shares £m	Currency translation reserve £m	Cashflow hedge reserve £m	Retained earnings £m	Total £m
At 1 February 2017	**1**	**403**	**(26)**	**1**	**2**	**(2,294)**	**(1,913)**
Profit for the year	-	-	-	-	-	111	111
Other comprehensive income	-	-	-	(1)	5	99	103
Total comprehensive income	-	-	-	(1)	5	210	214
Other reserves	-	-	-	-	(2)	2	-
Dividends	-	-	-	-	-	(56)	(56)
Issue of share capital	-	3	-	-	-	-	3
Purchase of own shares	-	-	(3)	-	-	-	(3)
At 31 January 2018	**1**	**406**	**(29)**	**-**	**5**	**(2,138)**	**(1,755)**
Profit for the year	-	-	-	-	-	42	42
Other comprehensive income	-	-	-	-	(5)	25	20
Total comprehensive income	-	-	-	-	(5)	67	62
Dividends	-	-	-	-	-	(12)	(12)
Issue of share capital	-	2	-	-	-	-	2
Purchase of own shares	-	-	(2)	-	-	-	(2)
IFRS 9 conversion	-	-	-	-	-	13	13
IFRS 9 conversion deferred tax impact	-	-	-	-	-	(2)	(2)
Share-based payments	-	-	-	-	-	4	4
At 31 January 2019	**1**	**408**	**(31)**	**-**	**-**	**(2,068)**	**(1,690)**

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

Consolidated statement of cash flows

	Note	for the year ended 31 January	
		2019	2018
		£m	£m
Profit before tax		**53**	141
Amortisation, depreciation and impairment	8,10	**78**	70
Net finance costs	5	**166**	166
Difference between pension charge and cash contributions		**2**	(44)
Other adjustments to profit before tax		**3**	23
Working capital:			
Increase in trade and other receivables		**(23)**	(3)
Decrease in trade and other payables		**(3)**	(8)
Decrease in provisions		**(3)**	(6)
Total working capital adjustments		**(29)**	(17)
Net cash flows from operating activities before tax		**273**	339
Tax paid		**(15)**	(23)
Net cash flows from operating activities		**258**	316
Investing activities			
Capital expenditure		**(82)**	(63)
Proceeds from sale of fixed assets		**13**	18
Payment for acquisition of subsidiary, net of cash acquired		**(13)**	-
Proceeds from sale of joint venture		**2**	-
Dividends from joint ventures and associates		**1**	1
Interest received		**1**	1
Net cash flows used in investing activities		**(78)**	(43)
Financing activities			
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		**(12)**	(56)
Net cash flows used in financing activities		**(214)**	(334)
Net decrease in cash and cash equivalents		**(34)**	(61)
Cash and cash equivalents at 1 February		**150**	211
Cash and cash equivalents at 31 January	12	**116**	150

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 £3m (2018: inflow of £23m) include impairment of goodwill £nil (2018: £27m), profit on sale of the Home Services business of £nil (2018: £6m), share of loss from joint ventures and associates of £nil (2018: £1m), share-based payment charge of £5m (2018: £7m), profit on sale of fixed assets of £1m (2018 profit: £1m), credit for reversal of MVP share-based payment charge of £nil (2018: £7m), credit on remeasurement of contingent consideration of £1m (2018: £nil), loss on disposal of VVCR of £nil (2018: £1m) and impairment of investment in joint ventures of £nil (2018: £1m).

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

1 Basis of preparation

The financial information set out in this report does not constitute the Company's statutory accounts for the years ended 31 January 2019 or 2018, but is derived from those accounts. The statutory accounts for the year ended 31 January 2018 have been delivered to Companies House and those for 2019 will be delivered in due course. The Auditor has reported on those accounts: its Reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying its Report and did not contain a statement under s498(2) or (3) of the Companies Act 2006. The financial information included in this preliminary announcement has been prepared on the same basis as set out in the 2019 Annual Report and Accounts.

2 Segmental information

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 and Insurance combines Insurance Services and Insurance Underwriting. 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. This segment also includes the insurance underwriting and reinsurance activities of the AA.

2 Segmental information

	2019 **£m**	2018 £m
Revenue		
Roadside	**841**	814
Insurance	**138**	145
Trading Revenue	**979**	959
Exceptional revenue provision (see note 16)	**-**	1
Group Revenue	**979**	960
Trading EBITDA		
Roadside	**283**	320
Insurance	**58**	71
Trading EBITDA	**341**	391
Share-based payments	**(5)**	(7)
Contingent consideration remeasurement gain	**1**	-
Pension service charge adjustment	**(5)**	(10)
Amortisation and depreciation	**(73)**	(70)
Operating profit before exceptional items	**259**	304
Exceptional operating items (see note 4)	**(40)**	3
Operating profit	**219**	307
Net finance costs (see note 5)	**(166)**	(166)
Profit before tax	**53**	141

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.

2 Segmental information (continued)

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

	2019 £m	2018 £m
Revenue		
Roadside Assistance	**778**	747
Insurance Services	**119**	133
Driving Services	**63**	67
Insurance Underwriting	**19**	12
Trading Revenue	**979**	959
Exceptional revenue provision (see note 16)	**-**	1
Group Revenue	**979**	960
Trading EBITDA		
Roadside Assistance	**322**	345
Insurance Services	**62**	79
Driving Services	**17**	22
Insurance Underwriting	**6**	1
Head Office costs	**(66)**	(56)
Trading EBITDA	**341**	391

Reconciliation of new segmental analysis

Revenue

	Roadside		**Insurance**	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Former segment presentation				
Roadside Assistance	**778**	747	**-**	-
Insurance Services	**-**	-	**119**	133
Driving Services	**63**	67	**-**	-
Insurance Underwriting	**-**	-	**19**	12
Trading Revenue	**841**	814	**138**	145

2 Segmental information (continued)

Operating profit before exceptional items	Roadside		Insurance	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Former segment presentation				
Roadside Assistance	**322**	345	**-**	-
Insurance Services	**-**	-	**62**	79
Driving Services	**17**	22	**-**	-
Insurance Underwriting	**-**	-	**6**	1
Head Office costs	**(56)**	(47)	**(10)**	(9)
Trading EBITDA	**283**	320	**58**	71
Share-based payments	**(4)**	(6)	**(1)**	(1)
Pension service charge adjustment	**(5)**	(8)	**-**	(2)
Contingent consideration remeasurement gain	**1**	-	**-**	-
Amortisation and depreciation	**(66)**	(63)	**(7)**	(7)
Operating profit before exceptional items	**209**	243	**50**	61

3 Adjusted performance measures

These accounts report 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:

		for the year ended 31 January	
	Note	**2019** **£m**	2018 £m
Trading EBITDA	2	**341**	391
Share-based payments		**(5)**	(7)
Contingent consideration remeasurement gain	2	**1**	-
Pension service charge adjustment	2	**(5)**	(10)
Amortisation and depreciation	8,10	**(73)**	(70)
Exceptional operating items	4	**(40)**	3
Operating profit		**219**	307

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.

3 Adjusted performance measures (continued)

Adjusted earnings per share

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

Adjusted profit before tax is included as a non-GAAP measure as it is used by management to evaluate performance and by investors to more easily and consistently track the underlying performance of the Group. Adjusted earnings per share is calculated as adjusted profit after tax divided by the weighted average number of shares.

	2019	2018
Profit after tax as reported (£m)	**42**	111
Adjusted for:		
Exceptional operating items (see note 4) (£m)	**40**	(3)
Share-based payments (£m)	**5**	7
Contingent consideration remeasurement gain (see note 2) (£m)	**(1)**	-
Pension service charge adjustment (see note 17) (£m)	**5**	10
Exceptional finance costs (see note 5) (£m)	**13**	9
Tax expense (£m)	**11**	30
Adjusted profit before tax (£m)	**115**	164
Tax at the effective rate of 20.8% (2018: 19.1%) (£m)	**(24)**	(31)
Adjusted profit after tax (£m)	**91**	133
Weighted average number of shares outstanding (millions)	**612**	610
Adjusted basic earnings per share (pence)	**14.9**	21.8
Weighted average number of diluted ordinary shares (millions)	**612**	610
Adjusted diluted earnings per share (pence)	**14.9**	21.8

4 Exceptional operating items

	2019 £m	2018 £m
Pension past service cost / (credit) (see note 17)	**22**	(34)
Impairment of investment in joint venture	**-**	1
Duplicate breakdown cover (see note 16)	**-**	(1)
Impairment of goodwill (see note 18)	**-**	27
Impairment of intangible fixed assets (see note 8)	**5**	-
Other exceptional operating items	**13**	4
Total exceptional items	**40**	(3)

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 17).

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 17). This comprised a £12m gain from closure of the final salary sections of the AAUK scheme, due to the assumed deferred pension revaluation being lower than the assumed pensionable earnings increases, and a £22m gain from the change in pension indexation in the CARE section from RPI-based to CPI-based, which is expected to be lower in the long term.

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 16 for further information.

In the prior year, other exceptional operating costs included £24m relating to business transformation costs, £1m gain on disposal of fixed assets, £2m for IT systems transformation, £9m improvement in onerous properties position, £6m gain on the disposal of the home services book, £7m credit for the reversal of share-based payments charge relating to the former executive chairman and £1m relating to the loss on disposal of the VVCR entities.

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 5 and 15).

5 Finance costs

	2019 £m	2018 £m
Interest on external borrowings	**127**	132
Finance charges payable under finance leases	**4**	6
Total ongoing cash finance costs	**131**	138
Ongoing amortisation of debt issue fees	**15**	10
Contingent consideration movements	**2**	-
Net finance expense on defined benefit pension schemes	**6**	10
Total ongoing non-cash finance costs	**23**	20
Debt repayment 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 15)	**6**	1
Exceptional finance costs	**13**	9
Total finance costs	**167**	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 15).

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.

6 Tax

The major components of the income tax expense are:

	2019 £m	2018 £m
Consolidated income statement		
Current income tax		
Current income tax charge	**7**	23
Adjustments in respect of previous years	**1**	-
	8	23
Deferred tax		
Effect of tax rate change on opening balances	**-**	(1)
Origination and reversal of temporary differences	**5**	9
Adjustments in respect of prior years	**(2)**	(1)
	3	7
Tax expense in the income statement	**11**	30

	2019 £m	2018 £m
Consolidated statement of comprehensive income		
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
Income tax charged directly to other comprehensive income	**4**	24

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

6 Tax *(continued)*

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

	2019 £m	2018 £m
Profit before tax	**53**	141
Tax at rate of 19% (2018: 19.1%)	**10**	27
Adjustments relating to prior years	**(1)**	(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
Income tax expense reported in the consolidated income statement at effective rate of 20.8% (2018: 19.1%)	**11**	30

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.

7 Earnings per share

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

	2019	2018
Basic earnings per share:		
Profit after tax from total operations (£m)	**42**	111
Weighted average number of shares outstanding (millions)	**612**	610
Basic earnings per share from total operations (pence)	**6.9**	18.2

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

Under the Group's Employee Share Incentive Plan, shares are purchased monthly at market value and therefore any dilution is immediately accounted for in the earnings per share. In addition, matching shares are issued monthly and placed into the Employee Benefit Trust and are therefore not dilutive. As at 31 January 2019, there are no outstanding shares to be issued under these schemes that are potentially dilutive.

The Group has another class of potential dilutive ordinary shares relating to the MVP shares. However, as at 31 January 2019, based on average market value of ordinary shares for the year, these are unlikely to vest and so were not dilutive.

There are no further classes of share that are dilutive as at 31 January 2019.

7 Earnings per share (continued)

	2019	2018
Weighted average number of ordinary shares in issue (millions)	**612**	610
Potentially dilutive shares (millions)	**-**	-
Weighted average number of diluted ordinary shares (millions)	**612**	610
Diluted earnings per share from total operations (pence)	**6.9**	18.2

Adjusted earnings per share adjusts profit after tax for items that are either one-off in nature or relate to transactions that do not form part of the ongoing performance of the Group (see note 3).

	2019	2018
Profit after tax as reported (£m)	**42**	111
Adjusted for:		
Exceptional operating items (see note 4) (£m)	**40**	(3)
Share-based payment (£m)	**5**	7
Contingent consideration remeasurement gain (see note 2) (£m)	**(1)**	-
Pension service charge adjustment (see note 17) (£m)	**5**	10
Exceptional finance costs (see note 5) (£m)	**13**	9
Tax expense (see note 6) (£m)	**11**	30
Adjusted profit before tax (£m)	**115**	164
Tax at the effective rate of 20.8% (2018: 19.1%) (£m)	**(24)**	(31)
Adjusted profit after tax (£m)	**91**	133
Weighted average number of shares outstanding (millions)	**612**	610
Adjusted basic earnings per share (pence)	**14.9**	21.8
Weighted average number of diluted ordinary shares (millions)	**612**	610
Adjusted diluted earnings per share (pence)	**14.9**	21.8

8 Goodwill and other intangible assets

	Goodwill £m	Software £m	Total £m
Cost			
At 31 January 2017	1,173	203	1,376
Additions	25	51	76
Disposals	(1)	-	(1)
At 31 January 2018	**1,197**	**254**	**1,451**
Additions	-	69	69
Disposals	-	(66)	(66)
At 31 January 2019	**1,197**	**257**	**1,454**
Amortisation and impairment			
At 31 January 2017	-	93	93
Amortisation	-	31	31
Impairment	27	-	27
At 31 January 2018	**27**	**124**	**151**
Amortisation	-	33	33
Impairment	-	5	5
Disposals	-	(66)	(66)
At 31 January 2019	**27**	**96**	**123**
Net book value			
At 31 January 2019	**1,170**	**161**	**1,331**
At 31 January 2018	1,170	130	1,300

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).

There were £nil goodwill disposals in the year (2018: £1m disposals relating to the disposal of the Group's Dutch VVCR driver training businesses).

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 18).

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

9 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.

10 Property, plant and equipment

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

11 Trade and other receivables

	2019 £m	2018 £m
Current		
Trade receivables	**142**	137
Deferred consideration	**3**	3
Prepayments	**18**	15
Contract assets	**17**	18
Reinsurers' share of insurance liabilities	**39**	24
Other receivables	**4**	4
	223	201
Non-current		
Deferred Consideration	**-**	3

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

Reinsurers' share of insurance liability comprises £17m (2018: £5m) in relation to the provision for unearned premiums and £22m (2018: £19m) in relation to claims outstanding.

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

12 Cash and cash equivalents

	2019 £m	2018 £m
Ring-fenced cash at bank and in hand – available	**12**	42
Ring-fenced cash at bank and in hand – restricted	**8**	8
Non ring-fenced cash at bank and in hand – available	**68**	79
Non ring-fenced cash at bank and in hand – restricted	**28**	21
	116	150

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

Cash at bank and in hand includes £36m (2018: £29m) held by and on behalf of the Group's insurance businesses which are subject to contractual or regulatory restrictions.

13 Trade and other payables

	2019 £m	2018 £m
Current		
Trade payables	**88**	103
Other taxes and social security costs	**12**	18
Accruals	**61**	54
Deferred income	**233**	236
Deferred consideration	**2**	15
Provision for unearned premiums in Insurance Underwriting	**26**	14
Other payables	**40**	40
Obligations under finance lease agreements	**49**	48
	511	528
Non current		
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 9 and 18).

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.

14 Borrowings and loans

	2019 £m	2018 £m
Borrowings (see note 15)	**2,724**	2,727
Interest rate swap used for hedging	**-**	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).

15 Borrowings

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

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	**2,770**
Issue/ repayment date:								
17 July 2018	(250)	-	(300)	-	-	550	-	**-**
Total	**-**	**500**	**200**	**700**	**250**	**550**	**570**	**2,770**

15 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 AA Intermediate Co Limited and its subsidiaries. The Class A facility security over the AA Intermediate Co Limited group's assets ranks ahead of the Class B2 notes. The Class B2 notes have first ranking security over the assets of the immediate parent undertaking of the AA Intermediate Co Limited group, AA Mid Co Limited. AA Mid Co Limited can only pay a dividend when certain net debt to 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 A7 notes, the Group repaid £300m of 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 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, 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).

15 Borrowings *(continued)*

The Class A notes only permit the release of cash providing the senior leverage ratio after payment is less than 5.5x and providing there is sufficient excess cash flow to cover the payment. The Class B2 notes 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.

16 Provisions

	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
At 31 January 2018	**6**	**10**	**1**	**-**	**17**
Utilised during the year	(2)	(9)	(1)	-	(12)
Released during the year	-	(1)	-	-	(1)
Charge for the year	1	-	-	2	3
At 31 January 2019	**5**	**-**	**-**	**2**	**7**
Current	1	-	-	2	3
Non-current	4	-	-	-	4
At 31 January 2019	**5**	**-**	**-**	**2**	**7**
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.

16 Provisions (continued)

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.

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.

17 Pensions

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

	As at 31 January 2019			
	AAUK £m	AAI £m	AAPMP £m	Total £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
Deficit	**(167)**	**(6)**	**(45)**	**(218)**

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

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.

17 Pensions (continued)

	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)	-
Amounts recognised in the income statement	**61**	**(68)**	**(7)**	-
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
Amounts recognised in the statement of comprehensive income	**73**	**47**	**-**	**120**
Foreign exchange gain/(loss)	**1**	**(1)**	**-**	**-**
Contribution from scheme participants	1	(1)	-	-
Benefits paid from scheme assets	(64)	64	-	-
Ongoing employer contributions	21	-	-	-
Deficit reduction employer contributions	21	-	-	-
Movements through cash	**(21)**	**63**	-	**-**
Balance at 31 January 2018	**2,346**	**(2,586)**	**-**	**-**
Current service cost	-	(25)	(25)	-
Past service cost	-	(22)	(22)	-
Interest on defined benefit scheme assets/(liabilities)	59	(65)	(6)	-
Amounts recognised in the income statement	**59**	**(112)**	**(53)**	**-**
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)
Amounts recognised in the statement of comprehensive income	**(69)**	**99**	**-**	**30**
Contribution from scheme participants	1	(1)	-	-
Benefits paid from scheme assets	(96)	96	-	-
Ongoing employer contributions	21	-	-	-
Deficit reduction employer contributions	24	-	-	-
Movements through cash	**(50)**	**95**	**-**	**-**
Balance at 31 January 2019	**2,286**	**(2,504)**	**-**	**-**

18 Impairment of intangible assets

Goodwill acquired through business combinations has been allocated to cash-generating units ('CGUs') on initial recognition and for subsequent impairment testing. CGUs represent the smallest group of assets that independently generate cash flow and whose cash flow is largely independent of the cash flows generated by other assets.

The carrying value of goodwill by CGU is as follows:

	2019 £m	2018 £m
Roadside Assistance	**874**	874
Insurance Services	**240**	240
AA Cars (see note 9)	**25**	25
DriveTech	**31**	31
	1,170	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 by £26m to £nil as a result of this review and the DriveTech goodwill was impaired by £1m prior to the disposal of the Group's Dutch driver training business. DriveTech goodwill was not impaired in the current financial year.

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

19 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 20 February 2019 the Group completed the purchase of £23m of B2 notes in AA Bond Co Limited for cash consideration of £20m.

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