

AA BOND CO LIMITED
ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2020

Registered FC number: FC031455

Registered Company number 112992

AA BOND CO LIMITED
FOR THE YEAR ENDED 31 JANUARY 2020

DIRECTORS' REPORT

The directors present their annual report and audited financial statements of AA Bond Co Limited ("the Company") for the year ended 31 January 2020.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The Company is a wholly owned subsidiary of AA Intermediate Co Limited.

The principal activity of the Company is that of a financing company. The Class A2, A3, A5, A6, A7 and B2 notes issued in previous years are listed on the Irish Stock Exchange.

The outbreak of COVID-19 has resulted in a pandemic causing significant disruption across the globe. The impact on society is reflected in business closures, restrictions on movement, home working and cancellations of sporting and other events. This is expected to lead to an economic downturn.

The recent volatility in financial markets is being monitored by management who have assessed that the Company remains in a robust position to continue to perform its primary activity. The impact of COVID-19 is continuing to evolve at a fast pace but we do not expect there to be any material financial impact on the Company at the time of writing.

The Company incurred interest on borrowings of £124,992k (2019: £118,506k) in the year to 31 January 2020, amortisation of issue fees of £13,735k (2019: £13,652k) and an early repayment fee of £nil (2019: £15,261k). This was offset by interest receivable from a fellow subsidiary undertaking of £138,729k (2019: £147,642k). Management deem these figures to be the key performance indicators of the Company.

There are currently no plans to alter the principal activity of the Company going forward and the Company expects to continue to be a financing company.

RISK MANAGEMENT FRAMEWORK

The Company is part of the AA plc group which has developed an embedded enterprise risk management process that facilitates the identification, assessment, escalation and mitigation of the Company's risk exposure across every aspect and activity of the business. This framework enables the business to manage risk using predefined assessment criteria to ensure residual risk levels are in line with the Board's agreed risk appetite.

The AA plc group has put in place rigorous procedures and controls designed to prevent significant risks to the business occurring or to mitigate their effects if they should occur. These controls are monitored by the Risk, Compliance and Internal Audit functions to ensure they are working effectively.

The principal risks and uncertainties facing the Company are considered to be:

Financial Risk

The financial risks of the Company are managed centrally by the AA plc group treasury team taking into account the Company's position as part of the group with due consideration being given to the impact of transactions with other group entities.

Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk in relation to the intercompany balance due from a fellow subsidiary undertaking. The AA plc group monitors the recoverability of intercompany balances to ensure that there are sufficient resources to meet each counterparty's obligation.

AA BOND CO LIMITED

FOR THE YEAR ENDED 31 JANUARY 2020

DIRECTORS' REPORT (continued)

RISK MANAGEMENT FRAMEWORK (continued)

Unable to manage our debt

The AA plc group is unable to repay or refinance its debt at an acceptable price. The Company is the issuer of the financial indebtedness of the AA Intermediate Co Limited group which ringfences its debt within a whole business securitisation (WBS) structure. AA Intermediate Co Limited is a parent undertaking of the Company and part of the AA plc group. The viability and financial success of the Company is therefore tied to the viability and financial success of the AA Intermediate Co Limited group. No material uncertainties have been identified that would cast doubt over the financial success of the AA Intermediate Co Limited group. For more detail see the AA plc group's viability statement on page 37 of its annual report which discusses the assumptions which underpin this assessment.

DIRECTORS

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

M A Clarke	(Resigned 29 April 2019)
M W Strickland	(Resigned 6 January 2020)
G Pritchard	(Resigned 2 August 2019)
H P Whitaker	
M Neville	(Appointed 2 August 2019)
K J Dangerfield	(Appointed 6 January 2020)

COMPANY SECRETARY

Mourant Secretaries (Jersey) Limited

DIRECTORS' INDEMNITY

The Company maintains directors' and officers' liability insurance, which gives appropriate cover for any legal action brought against its directors and officers. The Company has also granted indemnities to its directors and officers against all losses and liabilities incurred in the discharge of their duties, to the extent permitted by law. This is a qualifying third-party indemnity provision and was in force throughout the financial year and at the date of approval of the financial statements.

DIVIDENDS

The Company has not paid a dividend in the year (2019: £nil) and the directors do not propose the payment of a final dividend (2019: £nil).

AA BOND CO LIMITED
FOR THE YEAR ENDED 31 JANUARY 2020
DIRECTORS' REPORT (continued)

INDEPENDENT AUDITORS

The auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

GOING CONCERN

The Company's business activities and its exposure to financial risks are described in the business review and risk management framework sections on pages 1 and 2.

The directors believe that the Company has adequate financial resources due to the available cash resources of the AA plc group which can be drawn upon to service its interest payments. The Company has entered into a number of Issuer/Borrower Loan Agreements (IBLAs) with AA Senior Co Limited, resulting in intercompany loans matching the terms and costs of the loan notes held by the Company. The next tranche of debt due to mature is the £200m of remaining Class A3 notes which mature on 31 July 2020. AA Senior Co Limited drew its Senior Term Facility in April 2020 (see note 13) and is currently holding the proceeds from that drawdown in escrow to redeem the Class A3 notes on their maturity. In addition, the terms of the financing agreements prescribe that the Company achieves a marginal profit each year which contributes to the Company's net asset position.

For the AA plc group's longer-term viability, it remains a key assumption of its directors that the AA plc group continues to have ready access to both public debt and equity markets to enable its borrowings to be refinanced in due course. The AA plc group directors have reviewed projected cash flows, which have been updated for the potential impact of COVID-19, for a period of one year from the date of signing these financial statements and have concluded that the AA plc group has sufficient funds to continue trading for this period and the foreseeable future. For more detail see the AA plc group's viability statement on page 37 of its annual report. This assessment has been reviewed by the directors of the Company and as a result, the directors believe that the Company is well placed to manage its business risks successfully using the risk management framework described in the Directors' Report and that the residual risks being taken by the Company are commensurate with its financial resources.

The covenants in place over the loan notes issued by the Company apply to the AA Intermediate Co Limited group as a whole and thus the resources of this group are used to assess compliance with these covenants. Compliance with the debt covenants is disclosed in the AA Intermediate Co Limited financial statements.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

AA BOND CO LIMITED

FOR THE YEAR ENDED 31 JANUARY 2020

DIRECTORS' REPORT (continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing financial statements for each financial year which give a true and fair view, in accordance with applicable Jersey law and United Kingdom Accounting Standards, of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the directors are required to:

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

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law, 1991. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

ON BEHALF OF THE BOARD



M NEVILLE
DIRECTOR

12 June 2020

Registered Office: 22 Grenville Street, St Helier, Jersey, JE4 8PX

Independent auditors' report to the members of AA Bond Co Limited

Report on the audit of the financial statements

Opinion

In our opinion, AA Bond Co Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 January 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

We have audited the financial statements, included within the Annual Report and Audited Financial Statements (the "Annual Report"), which comprise: the Statement of financial position as at 31 January 2020; the Income statement, the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to those charged with governance.

Basis for opinion

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

Independence

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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

We have provided no non-audit services to the Company in the period from 1 February 2019 to 31 January 2020.

Our audit approach

Overview



- Overall materiality: £34.7 million (2019: £33.3 million), based on 1% of total assets.
 - We scope the audit, based on materiality, by financial statement line item. As there are no branches or other locations no scoping by location is required.
 - Recoverability of amounts owed by group undertakings
 - Recognition, measurement and disclosure of financial liabilities
 - Going concern considerations relating to COVID-19
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**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF AA BOND CO LIMITED (continued)**

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of unethical and prohibited business practices, and we considered the extent to which non-compliance might have a material effect on the financial statements, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies (Jersey) Law, 1991 and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to inappropriate management bias in accounting estimates (related to recoverability of intercompany loans). Audit procedures performed by the engagement team included:

- Discussion with management, internal audit, internal compliance, including consideration of known or suspected instances of non-compliance with laws and regulations, and fraud;
- Challenging assumptions and judgements made by management in relation to the recoverability of intercompany loans receivable;
- Journal entries posted with unusual account combinations or posted by members of senior management with a financial reporting oversight role;
- Incorporating elements of unpredictability into the audit procedures performed; and
- Reviewing the disclosures in the Annual Report and financial statements against the specific legal requirements.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF AA BOND CO LIMITED (continued)**

Key audit matter	How our audit addressed the key audit matter
<p><i>Recoverability of amounts owed by group undertakings (£3,470m, 2019: £3,332m), see Directors' report page 1 and note 9.</i></p> <p>This represents a key audit matter due to the size of the intercompany receivables balance and the complexity of the intercompany arrangements within the AA plc group. There is a risk that the counterparty may be unable to repay the balance, resulting in a reduction of its carrying amount.</p>	<p>We have agreed the carrying amount to the audited group intercompany reconciliation and have confirmed that the balance has been recorded as a liability in the trial balance of the counterparty.</p> <p>We tested recoverability of this balance by confirming the net current asset position of the counterparty to evaluate the likelihood of default.</p> <p>The counterparty's ability to settle the balance is itself dependent on amounts owed to the counterparty by other AA group companies and we have therefore performed a similar assessment of recoverability on those balances.</p> <p>We challenged management's assessment that the Expected Credit Loss on receivables which are not immediately recoverable is immaterial.</p> <p>Based on the work performed above, we are satisfied with the recoverability of the carrying value of amounts owed by group undertakings.</p>
<p><i>Recognition, measurement and disclosure of financial liabilities (£2,735m, 2019: £2,735m). See notes 11 and 13.</i></p> <p>This represents a key audit matter because the balance is significant within the AA Bond Co Financial statements, and the purpose of the company is to hold and issue the listed debt.</p>	<p>We focused our testing on the completeness and valuation of the liability at year end. We have recalculated the valuation at amortised cost.</p> <p>We obtained third party confirmation of the total outstanding loan principal as at 31 January 2020, and the fair value at that date.</p> <p>We assessed the Company's compliance with IFRS 9 and reviewed the financial statement disclosures and were satisfied with the nature and extent of the disclosures provided.</p> <p>We found no material misstatements from our testing.</p>

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AA BOND CO LIMITED (continued)

Going concern considerations relating to COVID-19

AA Bond Co Limited had £2,735m of external debt at 31 January 2020, with a range of maturities from July 2020 to July 2025. Of this, £200m falls due in July 2020. The Company has a corresponding £200m receivable from AA Senior Co Limited, the recoverability of which is supported by the post year end drawdown of a £200m Senior Term Facility by AA Senior Co Limited. This cash is currently held in Escrow, specifically to repay the £200m debt due in July 2020.

In the context of the scale of the Group's debt we considered, in advance of the COVID-19 situation, evaluating the Group's ability to meet debt maturities and its liabilities within a twelve month period from the financial statements approval date, and its plans for subsequent maturities, in so far as they relate to the Group's going concern assessment, to be key audit matters.

Additionally, and in light of the COVID-19 situation, the Directors have considered the potential impacts on the Group and on the Company financial statements that have been caused by the pandemic which had developed by January 2020 in China and subsequently spread to the UK. The Directors in particular focused on developing revised forecasts for the Group for the year to 31 January 2021 and for the two years to 31 January 2023, reflecting an assessment of the COVID-19 situation and its impact; the Directors also developed other stress test scenarios to assess the uncertainties in the current situation. The Directors have reassessed their going concern consideration and impairment assessments in light of these revised forecasts.

We considered this to be a key audit matter having regard to the range of potential uncertainties, the assumptions required and the scale of the potential impacts on the Group.

We obtained the revised Group forecasts and discussed with management the key changes to assumptions that had been reflected and their impact on forecast performance. We performed certain recalculations to test the mathematical integrity of the changes modelled and evaluated the key assumptions.

We obtained operational information used by management for the period through to the end of May showing information such as new business and customer retention activity and challenged management as to whether this was consistent with the assumptions made in the forecasts in these areas. For a selection of this information we performed testing to corroborate the integrity of the underlying operational information. We focused in particular on the cash inflows and revenues of the Group.

We tested the availability of cash and funding facilities (and reflected in management's cash flow forecasts), including considering covenant requirements. This included reading facility documents, testing covenant calculations and obtaining legal clarifications regarding the interpretation of certain clauses in the loan agreements. We confirmed the drawdown of the £200m Senior Term Facility in April 2020 to correspondence received from the Group's bank and obtained supporting evidence in relation to the Group's plans for subsequent maturities and evaluated their reasonableness.

We reviewed the stress testing performed over the latest forecasts to confirm the Directors had considered a set of severe but plausible downside scenarios (in particular including a reverse stress test, i.e. identifying the changes in assumptions which would be required to result in both the Group running out of cash and a covenant breach) in their assessment of the potential impact of COVID-19 on the Group.

In respect of going concern, we evaluated the appropriateness of management's conclusions in light of the revised forecasts and associated stress tests. Our conclusions are described in the Going Concern section below.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF AA BOND CO LIMITED (continued)**

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£34.7 million (2019: £33.3 million).
How we determined it	1% of total assets.
Rationale for benchmark applied	The Company is a financing company and issues loan notes on behalf of the AA plc group. All interest costs are recharged to another group company, therefore we believe that total assets is the most appropriate benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1.7 million (2019: £1.3 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Reporting on other information

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements set out on page 4, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF AA BOND CO LIMITED (continued)**

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies (Jersey) Law 1991 exception reporting

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept by the Company, or proper returns adequate for our audit have not been received from branches not visited by us; or the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the Directors on 22 July 2019 to audit the financial statements for the year ended 31 January 2019 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 31 January 2019 to 31 January 2020.



Stuart Newman
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants
London
12 June 2020

AA BOND CO LIMITED**INCOME STATEMENT****FOR THE YEAR ENDED 31 JANUARY**

	Note	2020 £'000	2019 £'000
OPERATING COSTS			
Administrative expenses		(282)	(218)
Other income		282	-
OPERATING RESULT/(LOSS)		-	(218)
Finance income	6	138,732	147,642
Finance costs	7	(138,727)	(147,419)
PROFIT BEFORE TAX		5	5
Tax expense	8	(1)	(1)
PROFIT FOR THE FINANCIAL YEAR		4	4

There is no income and expenditure other than that passing through the income statement, therefore no separate statement of comprehensive income is presented.

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

AA BOND CO LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 JANUARY

	Note	2020 £'000	2019 £'000
NON-CURRENT ASSETS			
Trade and other receivables	9	2,534,708	2,723,643
CURRENT ASSETS			
Trade and other receivables	9	935,594	607,699
TOTAL ASSETS		3,470,302	3,331,342
CURRENT LIABILITIES			
Trade and other payables	10	(735,646)	(607,673)
Current tax payable		(1)	(2)
Borrowings	11	(199,919)	-
		(935,566)	(607,675)
NON-CURRENT LIABILITIES			
Borrowings	11	(2,534,708)	(2,723,643)
TOTAL LIABILITIES		(3,470,274)	(3,331,318)
NET ASSETS		28	24
EQUITY			
Called up share capital	12	-	-
Retained earnings		28	24
TOTAL EQUITY		28	24

These financial statements were approved by the board of directors and signed on its behalf by:



M NEVILLE
DIRECTOR

12 June 2020

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

AA BOND CO LIMITED

STATEMENT OF CHANGES IN EQUITY

	Share capital £'000	Retained earnings £'000	Total £'000
At 1 February 2018	-	20	20
Profit for the financial year	-	4	4
IFRS 9 conversion gain on external borrowings	-	10,224	10,224
IFRS 9 conversion loss on intercompany balances	-	(10,224)	(10,224)
At 31 January 2019	-	24	24
Profit for the financial year	-	4	4
At 31 January 2020	-	28	28

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

AA BOND CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Presentation of financial statements

AA Bond Co Limited is a private company limited by shares, incorporated and domiciled in Jersey.

The financial statements are prepared on a going concern basis.

The financial statements are prepared in Sterling and are rounded to the nearest £1,000.

2 Accounting policies

2.1 Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The financial statements are prepared under the historical cost convention.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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

- IAS 1 paragraphs 10(d) and 10(f),
- IAS 1 paragraph 16 (statement of compliance with all IFRS),
- IAS 1 paragraph 38A (requirement for minimum of two primary statements, including cash flow statements),
- IAS 1 paragraph 111 (cash flow statement information),
- IAS 1 paragraphs 134-136 (capital management disclosures),
- IAS 7 'Statement of cash flows',
- IFRS 7 'Financial Instruments Disclosures',
- IAS 8 paragraphs 30 and 31 (new accounting standards that have been issued but are not yet effective),
- IFRS 13 paragraphs 91 – 99 'Fair Value measurement',
- The requirements in IAS 24, 'Related party disclosures' to disclose all related party transactions entered into between two or more members of a group,
- IAS 24 'Related party disclosures' (key management compensation).

The Company did not identify any new accounting standards coming into effect in the current year with a material impact on the financial statements.

A number of new accounting standards, amendments and interpretations have been issued and will be effective for years beginning after 1 February 2020, however the Company has not identified any with an expected material effect on the financial statements.

2.2 Critical accounting estimates and judgements

Management have exercised judgement in applying the Company's accounting policies and in making critical estimates. The principle judgements involving a higher degree of judgement and complexity, where the assumptions and estimates are significant to the financial statements relates to the assessment of credit loss allowances for intercompany receivables which requires judgement to assess the collectability of intercompany balances.

AA BOND CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 Significant accounting policies

a) Taxation

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

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

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

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

b) Financial assets and financial liabilities

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

Other receivables and other payables

Other receivables due within one year or after more than one year which are subject to an Issuer/Borrower Loan Agreement (IBLA) are therefore subject to the same terms as the Company's Borrowings. Other receivables due within one year which are not subject to an IBLA are not interest bearing and are recognised initially at fair value and are subsequently held at amortised cost.

Other payables due within one year are not interest bearing and are recognised initially at fair value and are subsequently held at amortised cost.

Loan receivables are included in other receivables and recognised at fair value through profit or loss.

Borrowings

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

An exchange with an existing lender of debt instruments with substantially different terms, or a substantial modification of the terms of an existing financial liability or a part of it, is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

AA BOND CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 Significant accounting policies (continued)

c) Finance income

Interest receivable relates to interest received from a fellow subsidiary undertaking under the IBLA which permits the Company to recharge its expenses.

d) Finance costs

Finance costs comprise interest payable and amortisation of debt issue fees.

e) Adjusting operating items

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

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

3 AUDITORS' REMUNERATION

Auditors' remuneration in respect of the audit of the Company's financial statements for the year ended 31 January 2020 amounted to £21k (2019: £18k). The Company's auditors provided no services to the Company other than the annual audit during the year under review.

AA BOND CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

4 ADJUSTED PERFORMANCE MEASURES

Management reviews the Company's results and performance both on a statutory and non-GAAP (non-statutory) basis. The Company's adjusted performance measures are non-GAAP (non-statutory) financial measures and are included in these financial statements as they are key financial measures used by management to evaluate performance of business segments. The measures enable management to more easily and consistently track the underlying operational performance of the Company and its business segments.

Trading EBITDA is profit after tax on a continuing basis as reported, adjusted for adjusting operating items, net finance costs and tax expense.

Reconciliation of Trading EBITDA to operating result/(loss)

Trading EBITDA is calculated as operating result/(loss) before adjustments as shown in the table below:

		for the year ended 31 January	
	Note	2020 £'000	2019 £'000
Trading EBITDA		-	(192)
Adjusting operating items	5	-	(26)
Operating result/(loss)		-	(218)

Trading EBITDA excludes the effects of significant items of income and expenditure which may have an impact on the quality of earnings, such as income or costs which are the result of an isolated, non-recurring event.

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 the AA plc group's debt documents and is used for calculating debt covenants. Given the significance of the AA plc group debt, Trading EBITDA is therefore a key measure for management, enabling them to more easily and consistently track the underlying operational performance of the AA plc group and its subsidiary undertakings.

5 ADJUSTING OPERATING ITEMS

	2020 £'000	2019 £'000
Adjusting operating items	-	26

Adjusting operating items in the prior year of £26k comprised legal costs relating to the refinancing carried out during the prior year.

AA BOND CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

6 FINANCE INCOME

	2020	2019
	£'000	£'000
Interest receivable from fellow subsidiary undertakings	138,729	147,642
Net gain on settlement of debt (see note 11)	3	-
	138,732	147,642

7 FINANCE COSTS

	2020	2019
	£'000	£'000
Interest on borrowings	124,992	118,506
Penalty on early repayment of debt	-	15,261
Amortisation of issue fees	13,735	13,652
	138,727	147,419

In the prior year, the Company repaid Class A3 notes of £300m and issued £550m of Class A7 notes, incurring an early repayment penalty of £15m.

8 TAX EXPENSE

The major components of the tax expense are:

	2020	2019
	£'000	£000
Current tax:		
- Current income tax charge	1	1
Total tax expense	1	1

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

	2020	2019
	£'000	£'000
Profit before tax	5	5
Tax at rate of 19.0% (2019: 19.00%)	1	1
Tax expense reported in the income statement	1	1

The Company is incorporated in Jersey but not resident in Jersey as its business is centrally managed and controlled in the UK, and therefore tax resident in the UK.

The UK corporation tax rate was expected to reduce from 19% to 17% on 1 April 2020. These rates had been substantively enacted at the statement of financial position date and have therefore been included in the deferred tax calculations. The March 2020 budget announced that the reduction in tax rate would be cancelled and the 19% rate retained after 1 April 2020.

AA BOND CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

9 TRADE AND OTHER RECEIVABLES

	2020 £'000	2019 £'000
Amounts receivable after one year		
Amounts owed by group undertakings	<u>2,534,708</u>	<u>2,723,643</u>
	<u>2,534,708</u>	<u>2,723,643</u>

The Company has entered into a number of Issuer/Borrower Loan Agreements (IBLAs) with AA Senior Co Limited. As a result of these agreements, the proceeds from the loan notes issued by the Company were loaned to AA Senior Co Limited. The terms of these intercompany loans reflect the terms and costs of the loan notes held by the Company. The element of the amounts owed by group undertakings which relate to the IBLAs are per the borrowings note below, see note 11.

	2020 £'000	2019 £'000
Amounts receivable within one year		
Other taxation and social security	3	22
Amounts owed by group undertakings	<u>935,591</u>	<u>607,677</u>
	<u>935,594</u>	<u>607,699</u>

Within amounts owed by group undertakings within one year, £199,919 is subject to an IBLA and is therefore subject to the same terms as the Company's Borrowings. All other amounts owed by group undertakings within one year are unsecured, have no repayment terms and bear no interest.

10 TRADE AND OTHER PAYABLES

	2020 £'000	2019 £'000
Trade payables	6	-
Amounts owed to group undertakings	735,611	607,673
Accruals and deferred income	29	-
	<u>735,646</u>	<u>607,673</u>

Amounts owed to group undertakings are unsecured, have no repayment terms and bear no interest.

11 BORROWINGS

	Expected maturity date	Interest rate	Principal £'000	Issue costs £'000	Amortised issue costs £'000	Total at 31 January 2020 £'000	Total at 31 January 2019 £'000
Class A2 notes	31 July 2025	6.27%	500,000	(819)	478	499,659	499,596
Class A3 notes	31 July 2020	4.25%	200,000	(1,091)	1,010	199,919	199,755
Class A5 notes	31 January 2022	2.88%	697,249	(47,274)	27,771	677,746	670,643
Class A6 notes	31 July 2023	2.75%	250,000	(3,774)	1,584	247,810	247,185
Class A7 notes	31 July 2024	4.88%	550,000	(8,140)	2,077	543,937	542,591
Class B2 notes	31 July 2022	5.50%	569,762	(15,990)	11,784	565,556	563,873
		4.51%	2,767,011	(77,088)	44,704	2,734,627	2,723,643

AA BOND CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 BORROWINGS (continued)

The Company's borrowings are presented in current and non-current liabilities as below:

	2020 £'000	2019 £'000
Current		
Borrowings	199,919	-
Non-current		
Borrowings	2,534,708	2,723,643
	2,734,627	2,723,643

The current borrowing of £200m relates to the Class A3 notes for which the expected maturity date is 31 July 2020. This repayment of borrowings can be fully funded by the AA plc group by a committed forward starting Senior Term Facility of £200m, which was undrawn at 31 January 2020 and has a maturity date of 31 July 2023.

At 31 January 2020, all borrowings have fixed interest rates. The weighted average interest rate for all borrowings of 4.51% has been calculated using the interest rate and principal values on 31 January 2020.

On 23 December 2019, the Company completed the purchase of £2,751k of Class A5 notes for cash consideration of £2,748k. These notes were subsequently cancelled resulting in a £3k gain on settlement of debt (see note 6).

On 5 February 2020, the Company issued £325m of Class A8 notes at an interest rate of 5.50% in exchange for £325m of Class A5 notes. This refinancing transaction is an event after the reporting period and will be accounted for in the 2021 financial year. See note 13 for further detail.

In order to show the Company'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.

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 AA Mid Co Limited, which is the immediate parent undertaking of the AA Intermediate Co Limited group. AA Mid Co Limited can only pay a dividend when certain Net Debt to Trading EBITDA and cash flow criteria are met.

Any voluntary repayment of the Class B2 notes would be made at a fixed premium until 31 July 2020 after which there would be no premium to pay on 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.

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

The AA Intermediate Co Limited group's performance is subject to compliance with certain debt covenants as explained below. There are no debt covenants based solely on the performance of AA Bond Co Limited.

In order to comply with the requirements of the Class A notes, the AA Intermediate Co Limited group is required to maintain its 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 2020 was 3.4x (2019: 2.6x). The Class B2 notes require the AA Intermediate Co Limited group to maintain its Class B2 free cash flow to debt service ratio in excess of 1.0x. The actual Class B2 free cash flow to debt service ratio as at 31 January 2020 was 2.5x (2019: 1.9x).

AA BOND CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 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 actual Senior Leverage ratio as at 31 January 2020 was 6.2x (2019: 6.5x). The Class B2 notes restrictions only permit the release of cash providing the Fixed Charge Coverage 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 actual Fixed Charge Coverage ratio as at 31 January 2020 was 2.6x (2019: 2.6x).

The Class A and Class B2 notes therefore place restrictions on the AA plc 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.

On 5 February 2020, S&P Global Ratings reaffirmed the credit rating of the Company's Class A notes at BBB- and the Class B2 notes at B+. On 23 April 2020, as part of its Senior Term Facility drawdown process (see note 13), the AA plc group announced that S&P confirmed the credit rating on the Class A notes at BBB-.

12 CALLED UP SHARE CAPITAL

	2020	2019
	£	£
Allotted, called up and fully paid		
2 (2019: 2) ordinary shares of £1	2	2

As at 31 January 2020, the Company had distributable reserves of £28k (2019: £24k). The Company did not pay any dividends in the year (2019: £nil).

13 EVENTS AFTER THE REPORTING PERIOD

Exchange of £325m Class A5 notes for £325m Class A8 notes

On 5 February 2020, the Company issued £325m of Class A8 notes at an interest rate of 5.50% in exchange for £325m of Class A5 notes. This refinancing transaction is an event after the reporting period and will be accounted for in the 2021 financial year. £3m of new issue premium associated with the issue of the Class A8 notes will be capitalised. In line with accounting for a substantial modification of a debt instrument under IFRS 9, costs of £20m associated with the issue of the Class A8 notes and the cancellation of the Class A5 notes will be written off, consisting of £6m of exchange premium, £5m of transaction fees and £9m of unamortised issue costs associated with the Class A5 notes.

Summary of borrowings as at 5 February 2020:

	Expected maturity date	Interest rate	Principal £'000	Issue costs £'000	Amortised issue costs £'000	Total at 5 February 2020 £'000
Class A2 notes	31 July 2025	6.27%	500,000	(819)	479	499,660
Class A3 notes	31 July 2020	4.25%	200,000	(1,091)	1,012	199,921
Class A5 notes	31 January 2022	2.88%	372,249	(25,239)	14,898	361,908
Class A6 notes	31 July 2023	2.75%	250,000	(3,774)	1,593	247,819
Class A7 notes	31 July 2024	4.88%	550,000	(8,140)	2,096	543,956
Class A8 notes	31 July 2027	5.50%	325,000	(3,114)	-	321,886
Class B2 notes	31 July 2022	5.50%	569,762	(15,990)	11,807	565,579
		4.82%	2,767,011	(58,167)	31,885	2,740,729

AA BOND CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

13 EVENTS AFTER THE REPORTING PERIOD (continued)

Drawing of AA plc group's Senior Term Facility

On 23 April 2020, consistent with its proactive approach to debt management, the AA plc group announced that it had drawn down in full AA Senior Co Limited's £200m Senior Term Facility early to de-risk ahead of the planned refinancing of the remaining £200m Class A3 notes which are due on 31 July 2020. As part of this process, S&P Global Ratings confirmed the credit rating of the Class A notes at BBB-.

14 ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The Company is a wholly owned subsidiary of AA Intermediate Co Limited, a Company registered in the UK.

The parent of the smallest group to consolidate these financial statements is AA Intermediate Co Limited whose registered office is Fanum House, Basing View, Basingstoke, RG21 4EA. The ultimate controlling party and parent undertaking, which is also the parent of the largest group to consolidate these financial statements, is AA plc whose registered office is at Fanum House, Basing View, Basingstoke, RG21 4EA.

Copies of the consolidated AA plc and AA Intermediate Co Limited financial statements are available from the website www.theaapl.com/investors.