7 May 2020

AA plc results for the year ended 31 January 2020 (FY20)

Strong performance in FY20; resilient and cash generative business model with continued focus on proactive debt management

Simon Breakwell, Chief Executive Officer, commented:

"FY20 was a year of strong operational and financial performance for The AA and further delivery on our strategic plan. The business continued to perform in line with our expectations through February and March of this year but as we entered April we started to see greater variance as a result of COVID-19. We have responded quickly with changes to our operations, both in Roadside and Insurance, and material cost reduction programmes to mitigate the significant uncertainty ahead.

"We continue to deliver a high-quality service to our members and customers and are also working to support those fighting the virus. I am deeply humbled by the work our fantastic people are doing to support key workers. We launched a free of charge breakdown provision for NHS workers and have so far assisted over 2,500 NHS staff. We are also providing maintenance and repair services to the London Ambulance Service, helping to keep over 600 ambulances on the road, as well as assisting other Ambulance Services around the country.

"Given the recurring nature of many of our income streams, the benefit of the actions already taken and our flexibility to adjust to further changes in trading, we currently expect our performance this year to be robust in the circumstances and only slightly below that of FY20. This is assuming a partial lifting of the lockdown restrictions in early/midsummer and a gradual return to a more normalised trading environment during the rest of the year. This confidence in our performance reflects our resilient business model both in Trading EBITDA performance and in positive predictable cash generation."

Resilient operational performance underpinned by cash generative business model

	Year ended Jan 20 (FY20)	Year ended Jan 19 (FY19)	Change
GAAP measures			
Revenue (£m)	995	979	+2%
Operating profit (£m)	257	219	+17%
Profit before tax (PBT) (£m)	107	53	+102%
Basic EPS (pence)	14.1	6.9	+104%
Non-GAAP measures			
Trading EBITDA[1,5] (£m)	350	341	+3%
Trading EBITDA[2] margin (%)	35	35	Flat
Free cash flow[4] (£m)	83	12	+592%
Adjusted profit before tax[3] (£m)	107	115	-7%
Adjusted basic EPS[3] (pence)	14.1	14.9	-5%

COVID-19 update and actions taken

- As communicated in our trading update of 31 March 2020, trading in February and March was in line with our expectations.
- April trading has seen more variable activity levels due to the nationwide lockdown which came into force on 23 March 2020. In response to this, the business has implemented swift changes to its operations and cost base to mitigate the ongoing effects during the lockdown.
- Roadside – In the short period of the lockdown we have experienced variable patterns in trading. With fewer cars on the road total breakdowns are materially down, whilst new membership sales have softened overall and retention rates have been marginally down. Mitigating these, garaging costs were substantially lower, and parts/battery sales have been significantly higher than normal. We expect membership to be down during the first half of the year as we go through the lockdown followed by some recovery as restrictions ease. In the smaller parts of the business, we have seen much reduced levels of trading in Driving Schools, DriveTech and AA Cars during the lockdown period.
- Insurance – The business has shown good resilience through to the end of April and is performing in line with our expectations. Renewal rates remain steady for the Insurance broker and our claims cost exposure, which is limited to our in-house underwriter, is also performing in line with our expectations. The Group has no business lines with direct claims cost exposure resulting from COVID-19.
- To protect the health and wellbeing of our staff, customers and suppliers we have introduced wide ranging safeguarding protocols across the Group including the implementation of home working which has enabled the closure of all our offices except for a reduced workforce in Oldbury, our emergency breakdown centre. For those at Oldbury, and our patrols working on the front line, we have introduced safe systems of work in line with Government guidelines to ensure that all colleagues are able to carry out their work safely and have adequate supplies of Personal Protective Equipment.
- To minimise the impact on trading, we are acting decisively and executing a number of operational and financial changes to our business that will result in the deferral and reduction of a range of operating costs across the Group including: no pay rises and a suspension of our normal bonus scheme, a general hiring freeze, a 15% reduction in pay for all Board members for three months, and tight cost control across the business. The Group has also applied for the Government furlough scheme for those parts of our business where it has been necessary for us to adjust to reduced levels of workload although the majority of our workforce continue to provide services to our customers.

Supporting the Government, NHS and keyworkers

- We are proud to play our part in supporting the NHS during these unprecedented times and to have supported the NHS across a number of initiatives.

Ambulance Service Support

- We have partnered with London Ambulance Service (LAS) to provide additional expert support to help the Service keep clinicians on the road responding to Londoners in need.
- Our partnership includes:
  - 24-hour breakdown and incident management services such as roadside assistance and vehicle recovery for London Ambulance Service vehicles;
  - Service, maintenance and repair in depots to support LAS staff in ensuring over 600 ambulances and 70 fast response cars are on the road throughout the crisis.
- We are also assisting other Ambulance Services across the country to maintain their fleets.

Supporting NHS workers directly

- On 2 April 2020, we launched a free breakdown service for NHS workers.
  - Since launch, nearly 18,000 NHS workers have registered for the service and we have assisted more than 2,500.

Proactive balance sheet management

- The Group remains committed to the proactive management of its capital structure and reduction of debt and will continue to assess all options, including the refinancing of the A5 and B2 notes due in 2022.
- During the year, the Group completed the buyback of £32m of bonds including £3m of A notes and £29m of B notes.
- The February 2020 exchange offer of £325m of A5 notes with new A8 notes at 5.5% interest rate was significantly oversubscribed and increased the average debt maturity from 3.3 years to 3.9 years.
- On 23 April, the Group announced that it had drawn down in full its £200m Senior Term Facility to de-risk ahead of time the planned refinancing of the remaining £200m 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-.
- As previously announced, the Board has suspended the final dividend in respect of FY20.
- As at 31 January 2020, the Group had cash and cash equivalents of £159m[6] and an available Working Capital Facility of £50m.
- The AA continues to remain well within its financial covenants.

Key FY20 operational highlights

- Roadside
  - Membership base returned to growth during the second half and rose 0.2% on the year to 3.215m (FY19: 3.207m); Retention of 80% (FY19: 80%) reflects strength of service proposition.
  - All key B2B contracts retained or extended. New strategic partnerships with Admiral and Uber delivering incremental new revenue streams.
  - Average income per member up 2% to £165 (FY19: £162) and average income per B2B customer up 5% to £22 (FY19: £21).
  - Ongoing progress on the development and roll-out of new differentiated products and services including Smart Breakdown.
- Insurance
  - 19% growth in motor policies to 869,000 (FY19: 731,000) and 2% growth in home policies to 844,000 (FY19: 830,000), benefiting from investment in marketing, incremental sales and renewals through our in-house underwriter as well as systems investments including Insurer Hosted Pricing.
  - Strong conversion rates of 36% (FY19: 25%) into our Roadside business.
  - Average income per motor and home policy including income from in-house underwriter and Accident Management businesses up 4% to £83 (FY19: £80).
  - Claims cost exposure for our in-house underwriter continues to perform in line with our expectations.
  - On 31 March 2020, we extended our long-term financial services partnership with the Bank of Ireland UK for an additional three years to at least 2028.

Key FY20 financial highlights

- Trading EBITDA up 3% to £350m (FY19: £341m), in line with market expectations; PBT more than doubled to £107m (FY19: £53m).
- Capex of £69m (FY19: £82m) in line with guidance.
- Free cash flow (pre-dividends, refinancing costs and bond buy-back) up significantly to £83m (FY19: £12m), in line with guidance.
- Completion of the triennial review of UK defined benefit pension scheme to 31 March 2019 results in a significant reduction to the technical provisions deficit of 64% to £131m (31 March 2016: £366m). Annual cash saving expected to be c.£6m per annum.
- Completion of a consultation process to close the CARE section of the UK defined benefit pension scheme to future accruals reduces the pension cash costs by c.£4m per annum. The consultation has resulted in an enhancement to the defined contribution scheme being agreed for affected employees which will cost c.£11m over three years starting from 1 April 2020.

Outlook

Given the recurring nature of many of our income streams, the benefit of the actions already taken and our flexibility to adjust to further changes in trading, we currently expect our performance this year to be robust in the circumstances and only slightly below that of FY20. This is assuming a partial lifting of the lockdown restrictions in early/midsummer and a gradual return to a more normalised trading environment during the rest of the year. This confidence in our performance reflects our resilient business model both in Trading EBITDA performance and in positive predictable cash generation.

Presentation

The live audio webcast of the presentation with accompanying slides will be available for analysts and investors at https://www.investis-live.com/aa/5e3c2f208d57e81300b2f0cf/egsa at 09.00 (UK time) today. A recording of the webcast will be made available from 12:30 (UK time).

Ends.

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Notes

1. Earnings before net finance costs, tax, depreciation, amortisation, adjusting operating items, share-based payments, contingent consideration remeasurement movements and pension service charge adjustments.
2. Trading EBITDA divided by Revenue arising within operating segments.
3. Adjusted for a number of one-offs including: adjusting operating items, share-based payments, pension service charge adjustment, contingent consideration remeasurement gain, the write off of debt issue fees, penalties on early repayment of debt, transfer from cash flow hedge reserve and net gain on settlement of debt.
4. Net increase in cash and cash equivalents pre-dividends, re-financing costs and bond buy-back.
5. Trading EBITDA as at 31 January 2020 includes a £3m benefit from the adoption of IFRS 16. The comparative figure for last year does not have any IFRS 16 impact included.
6. Included within cash and cash equivalents is restricted cash of £70m which is restricted for contractual or regulatory purposes.

Chief Executive Officer's review

Making Britain's driving life simpler and smarter

I am pleased to report a strong set of results with growth in profit and free cash flow in line with market expectations. We made significant operational progress across our Roadside and Insurance businesses including returning our paid membership base to growth while continuing to demonstrate the strong growth potential of our Insurance business. We are advancing with the development and rollout of several new products and services including Smart Breakdown, Service, Maintenance and Repair (SMR), and claims management, which will differentiate the AA and enable us to target a broader base of UK drivers. Supported by an improved workforce and culture, I am confident that we can carry our positive operational momentum forward and continue to deliver exciting new products, fantastic service for our customers and sustainable growth for our investors. We are on the way to realising our vision of making Britain's driving life simpler and smarter.

A year of delivery

Profitable growth delivered in line with expectations

My focus since becoming CEO has been to lay the foundations upon which to build a better AA by continuing to enhance our reputation for customer service and the highest standards of conduct and to deliver consistency in our financial performance ensuring that we meet expectations. Specifically, Trading EBITDA and free cash flow growth – the two key proof points that are synonymous with a business that is delivering sustainable long-term growth. Our results over the last two years have demonstrated just that and will over the longer term enable us to reduce our overall leverage and create sustainable returns for our investors.

Overall revenue grew 2% to £995m compared with £979m in the prior year, reflecting the solid performance of the Roadside and Insurance businesses.

In line with market expectations, we delivered a 3% growth in Trading EBITDA to £350m (2019: £341m), of which £290m related to the Roadside business and £60m related to the Insurance business. Group Trading EBITDA margins remained steady at 35% (2019: 35%).

Operating profit before adjusting operating items increased by £2m to £261m, a year-on-year improvement of 1%, reflecting the increase in Trading EBITDA, an increase in the contingent consideration remeasurement gain of £8m (see note 15), and a £1m reduction in the pension service charge adjustment, which were offset partially by the anticipated increase of £16m in amortisation and depreciation.

Profit after tax was up significantly to £87m (2019: £42m) and basic earnings per share increased by 7.2p, from 6.9p to 14.1p.

Positive operational momentum

Roadside

We continue to deliver best-in-class customer service in our Roadside Assistance business and in November 2019 were pleased to have been awarded the UK's most reliable breakdown cover provider in 2019 by What Car? for the second year running. These awards build on our success in June 2019, when we were awarded the top Which? Recommended Provider status for breakdown cover.

A key highlight for our B2C business last year was the growth in our paid membership base, which grew by 0.2% to 3.215m members. We achieved this while holding steady our customer retention rate at 80% and increasing the average income per paid member in line with inflation to £165.

Looking ahead, as a result of COVID-19 and the lockdown measures implemented by the Government, we expect membership to be down during the first half of this year followed by some recovery as restrictions ease.

In our B2B business, as previously announced and in line with expectations, average income across our c.9m business customers was up 5% to £22.

In April 2019, we announced a three-year contract with Admiral to offer AA roadside assistance to Admiral's 4.3m UK motor insurance customers, our first significant contract in the insurance market. Since our launch in September, we have already added over 207,000 new customers to our B2B base. In addition to Admiral, we were successful in winning several new contracts this year including Uber. Looking ahead, our focus is on forming partnerships which are aligned from both a strategic and commercial perspective. There are several significant B2B opportunities and we are confident in our ability to grow this part of our business, backed by our best-in-class customer service delivery, roadside technology, market-leading digital innovation and our broad range of driving services including SMR and accident and claims management.

Insurance

Our Insurance business continues to deliver strong rates of profitable policy growth driven by our in-house underwriter as well as the benefit of ongoing investment in systems including IHP for the broker panel.

Our broking business was the proud recipient of various awards during the year including the Gold Trusted Service Award by Feefo for delivering exceptional experience and the 5 star rating by Defaqto for our comprehensive car insurance policy.

The motor book grew by 19% to 869,000 policies and the home book grew by 2% to 844,000 policies, with the retention rates across both books in line with expectations. Currently, 85% of new motor business volumes are being written on IHP which is available across seven of our panel members. Over the next 12 months, we will continue the rollout of IHP across the motor panel base and will also commence the rollout of IHP to our home panel base starting with our in-house underwriter. In October, we were pleased to have announced the addition of Aviva, the UK's largest insurer, onto our broker panel for motor insurance.

We took important steps in enhancing our claims and accident management capabilities during the year by bringing our motor claims first notification of loss processes fully in-house to our new offices in Royal Tunbridge Wells for our in-house underwriter. This, together with the implementation of a new claims handling platform from ICE InsureTech, will help to facilitate a smoother end-to-end experience for our customers, deliver operational efficiencies and provide firm foundations for our future growth.

Our in-house underwriter continues to deliver profitable growth utilising our proprietary member data. Our underwritten motor book increased by 32% to 448,000 policies, driven principally by our non-member channel which is currently at 174,000 policies. The underwritten home book also grew strongly and increased by 28% to 332,000 policies.

In late FY20, in line with our strategic priority of broadening our underwriting footprint, we were pleased to have soft launched our young driver insurance proposition, utilising our Smart Breakdown technology.

Post period-end in March, we were pleased to have extended our Financial Services Distribution Agreement with Bank of Ireland UK by three years to at least 2028. As part of the agreement, our partnership now includes AA branded car finance products to sit alongside the successful savings and loans products.

Putting service, innovation and data at the heart of the AA

We continue to make good progress with the delivery of our strategy, which puts service, innovation and data at the heart of the AA. The key focus of our strategy is to develop a range of products and services to support driver needs and to make these available to customers through simple, intuitive digital channels. We aim to make these services available to all UK drivers as we move towards our vision – making Britain's driving life simpler and smarter.

We are making significant progress with the development and rollout of several new products and services and in May 2019 were pleased to have launched our first Product Innovation Day showcasing the range of ground-breaking tech-led innovations that we are currently developing. These include Smart Breakdown, SMR, young driver telematic-enabled insurance, as well as improvements in our digital reporting and diagnostic capabilities that will differentiate the AA, help our customers in their daily driving lives, improve our operational efficiency and generate additional revenue streams from both within and outside our current core membership base.

We will measure our success through our previously outlined strategic priorities: (i) innovate and grow Roadside; (ii) accelerate growth in Insurance; (iii) deliver operational and service excellence; and (iv) nurture a high performance culture.

Proactive pension liability and debt management

We have taken a range of proactive actions in recent years to reduce the risks associated with our pension scheme. In February 2020 we concluded the triennial review of our AA UK pension scheme which resulted in a significant improvement of our actuarial pension deficit from £366m (as at 31 March 2016) to £131m (as at 31 March 2019), a material reduction of 64%.

A new recovery plan has now been put in place and agreed with the trustees which assumes that the scheme deficit will be fully repaid in July 2025. As a result of our actions, we expect to make around £6m in annual cash savings.

On 18 March 2020, we concluded our 60-day pension consultation with around 2,800 members through their union/management representatives in respect of our proposal to close the CARE section of the AA's UK defined benefit pension scheme. Following this consultation, closure will take effect from 31 March 2020, which protects against the ongoing build-up of defined benefit risk for the Group and reduces the pension cash costs by c.£4m per annum. The consultation has resulted in an enhancement to the defined contribution scheme being agreed for affected employees which will cost c.£11m over three years starting from 1 April 2020.

We recognise the challenges posed by our level of indebtedness and the need to reduce this significantly. As part of our ongoing commitment to proactive debt management, we successfully completed the buyback of £32m of A and B notes for £28m cash during the year and in February 2020 we exchanged £325m A5 notes into new longer dated A8 notes, which has enabled us to increase our average debt maturity from 3.3 to 3.9 years. On 23 April 2020, we announced the early drawdown of our £200m Senior Term Facility to de-risk the planned refinancing of the remaining £200m A3 Notes due in 31 July 2020. As part of this process, S&P Global Ratings confirmed the credit rating of the Class A Notes at BBB-. In light of the Group's continued positive performance, the Group intends to continue to proactively manage its capital structure subject to market conditions.

Strong cash generation with a clear focus on maintaining cost discipline

Our business is delivering strong, predictable free cash flow and, in line with our guidance, we generated £83m of free cash flow (pre-dividends and bond buyback) compared with £12m in the prior year. We also delivered capital expenditure in line with guidance, which fell to £69m, a reduction of 16% or £13m.

Looking ahead

The ongoing situation with COVID-19 represents a significant level of uncertainty and our number one priority is to protect the health and wellbeing of our staff, members, customers and suppliers.

To minimise the impact on trading in FY21, we are acting decisively and executing a number of short term measures that will result in the deferral and reduction of a range of operating costs across the Group. These measures include: no pay rises and a suspension of our normal bonus scheme, a general hiring freeze, a 15% reduction in pay for all Board members for three months, and tight cost control across the business. The Group has also applied for the Government furlough scheme for those parts of our business where it has been necessary for us to adjust to reduced levels of workload, although the majority of our workforce continue to provide services to our customers. These measures do not impact our long term strategic priorities or our vision for The AA. Our progress against these are detailed on the accompanying pages. Given the recurring nature of many of our income streams, the benefit of the actions already taken and our flexibility to adjust to further changes in trading, we currently expect our performance this year to be robust in the circumstances and only slightly below that of FY20. This is assuming a partial lifting of the lockdown restrictions in early/midsummer and a gradual return to a more normalised trading environment during the rest of the year. This confidence in our performance reflects our resilient business model both in Trading EBITDA performance and in positive predictable cash generation.

I would like to thank all my colleagues for their passion, dedication and hard work over the past year and more recently in supporting those fighting the virus.

It is the highlight of my working life to be leading such a fine and important organisation as the AA. I am more confident than ever that together we are on the right-track to returning this wonderful business to sustainable long-term growth.

Simon Breakwell

Chief Executive Officer

6 May 2020

Strategy update

Service, innovation and data are at the heart of our strategy to unlock the potential for the AA. Underpinned by operational and service excellence as well a high performance culture, our strategy will deliver benefits for our members and customers, while creating sustainable long-term value for our investors.

Innovate and grow Roadside

1 Transform our breakdown service to be fully connected

What we have achieved

In October 2019, we launched Smart Breakdown, a new premium offering that will transform our breakdown service by using connected technology to enable early identification of faults, prevent breakdowns and get our members back on the road faster. Over 4,500 new and existing members currently have Smart Breakdown and feedback to date has been very positive. The data from our connected technology is also being used to broaden our insurance footprint through our young driver insurance proposition which we launched late in FY20.

What to look forward to

Our forward connected car strategy will be multi-faceted and will involve direct outreach to B2C customers through our Smart Breakdown proposition, as well as through strategic partnerships with OEMs which either leverage our technology or utilise OEMs' existing capabilities. Where our customers give us their permission we will be able to use the data from our connected car technology to continue to build our telematic insurance capabilities.

2 Ongoing innovation to differentiate our products and service

What we have achieved

In February 2019, we announced the acquisition of Prestige Motor Care Holdings Limited (AA Prestige), a profitable and growing technology-led supplier of 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. As part of our rollout plan, we announced a new partnership with Uber in September 2019, through which we have successfully integrated our SMR platform, as well as the ability to request AA roadside assistance, into Uber's Driver app. We have also recently commenced the rollout of SMR to all UK drivers through the soft launch of our Smart Care offering which is available on web-based channels. Looking ahead, we will continue with our rollout plan targeting both our B2B as well as B2C channels. We will also look to further improve our customer proposition and expand our network of garages to which we are affiliated so as to offer a truly unique and differentiated service in the market.

Earlier in the year, we launched our award winning new online breakdown reporting channel on our website (theaa.com) to supplement our existing phone and AA app channels. The channel has already proven successful and has contributed to over 1m personal breakdowns being fully reported via digital channels by the end of the FY20 financial year. The ability to report a breakdown digitally, via either our website or app, helps to improve the experience for our members by giving them greater choice of how they communicate with us, saving them time, making our service even more accessible and helping us to improve our operational efficiency.

What to look forward to

We will continue to invest in innovating and developing our pipeline of differentiated products and services to meet customer needs while maintaining a firm focus on cost management and meeting our internal rates of return.

3 Growing our base with new segments

What we have achieved

We launched our new Drive Smart marketing campaign in July 2019 targeting Freedom Seekers, a younger cohort of UK motorists (typically in their mid-40s) with our new positioning – making Britain's driving life simpler and smarter for UK motorists. The Stellar Rescue campaign depicts the iconic British 'Red Dwarf' crew stranded in space before being rescued by an AA patrol following a breakdown reported through the AA app. In early FY21, to support our Smart Breakdown launch, we aired the second part of the Stellar Rescue campaign in which the crew use our Smart Breakdown technology in space. The campaigns which have been broadcast on TV, cinema, out-of-home and radio, as well as through digital channels, have been well received.

What to look forward to

Our future marketing strategy will be centred on making Britain's driving life better and will increasingly span the breadth of our offering.

4 Digital adoption and innovation to drive broader member engagement

What we have achieved

During the year, our digital channels were used in 48% of the personal breakdowns that we serviced, up from 45% last year. We are currently in the process of expanding our digital offerings to our B2B base, with Lloyds banking group customers now able to report their breakdown online.

In relation to our award-winning app, approximately 700,000 unique users accessed the app on a monthly basis, of which around 50% were returning users and 50% were new. Approximately 60% of members have registered for the app to date, up from 48% last year. The key enhancement this year was the successful integration of Smart Breakdown functionality which is currently available to all Smart Breakdown users.

What to look forward to

Looking ahead, we will be adding in several new features into the app to drive further engagement, improve cross-sell rates, and increase retention.

5 Membership systems investment to drive retention

What we have achieved

We made good progress building our fit for the future tech estate in FY20, including continuing to build out CATHIE, our membership system. We have made significant improvements to our capability with over 70% of new policies sold through CATHIE. We plan to continue with the migration of existing policies, with an implementation programme that minimises the risk of this transition to our members and business.

What to look forward to

The investments we have made and will continue to make in marketing and pricing capabilities, as well as our online offerings including our app will give us important capabilities to improve retention performance, grow our membership base as well as drive cost reduction and enable new and bundled propositions, such as Smart Breakdown.

Accelerate growth in Insurance

1 Driving more competitive premiums

What we have achieved

Our proprietary data is our competitive advantage and is helping to deliver profitable policy growth for our insurance broking and in-house underwriter business. This, combined with the investments we have made in enhancing the brokers pricing agility, have successfully returned the motor and home policy books to growth delivering a 8% combined CAGR policy growth rate over the last two years.

What to look forward to

By continuing to develop our pricing agility through the rollout of IHP, realisation of greater efficiency through better internal systems, and supporting the growth of our in-house underwriter, we are confident that our Insurance business can continue to deliver strong profitable growth.

2 Broaden footprint to include non-members and younger customers

What we have achieved

Following the launch of our non-members insurance scheme in May last year through our in-house underwriter and reinsurance relationship with Munich Re, we are pleased to report that we have successfully onboarded 174,000 non-members. The non-member claim rate is tracking favourably to our member and ex-member base and gives us the confidence that the non-member base will continue to drive profitable policy growth. The strong growth of the non-member motor book and improvements in our customer journeys are also helping to deliver consistent and healthy conversions into our Roadside business with 36% of new insurance customers taking roadside membership at the point of sale.

In addition to the non-member growth channel, we were pleased to have soft launched our young driver proposition at the end of the year which, combined with the addition of Aviva to our motor panel base, will help to significantly broaden our demographic footprint and support volume growth of the motor book.

What to look forward to

Looking ahead, we will continue to broaden our insurance footprint through our non-member and young driver insurance schemes. We will also look to complement this growth through strategies to increase our online competitiveness and cross-sell capabilities to increase the penetration levels within our existing member base.

3 Insurance innovation

What we have achieved

We soft launched our young driver insurance scheme this year utilising our connected Smart Breakdown technology. 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.

What to look forward to

We will continue to develop our young driver proposition, which we believe can be a significant value driver for our Insurance business and help to promote cross-sell opportunities.

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 that will significantly improve the customer experience, promote cross-sell rates and improve overall retention rates. We expect to start to launch these soon.

Deliver operational and service excellence

What we have achieved

We delivered outstanding customer service during the year and were proud recipients of numerous awards for our Roadside Assistance and Insurance businesses in FY20.

In our Roadside business, overall call-to-arrive times averaged 46.5 minutes in line with our long-term target of 45 minutes. We responded to a majority of calls to our call centre in 20 seconds and our repair rates and average repair times were also exceptional and ahead of last year.

What to look forward to

To ensure that we have in place the optimal balance between the right level of front-line resourcing and flexibility in our cost base to redeploy resources during quieter periods, we are introducing more flexible working arrangements for our patrols. New initiatives include looking to utilise our Patrols' experience to broaden our technical services business by working on new revenue channels, such as vehicle recalls for OEMs and trials with a partner in the SMR market. Longer term, we also expect the growth of our digital reporting channels and Smart Breakdown to be a significant driver of operational cost efficiencies across our business.

Our long-term targets for our Roadside operations:

- Call-to-arrive times of 45 minutes
- Answer 80% of breakdown calls in 20 seconds

Nurture a high performance culture

Our people are key to delivering for our customers and to achieving business success. Our aim is to ensure that all our employees are motivated and engaged, with clear focus and purpose, and have the support they need to do their jobs.

What we have achieved

We ran our second annual employee engagement survey in February 2019 and are pleased to report a significant increase of nearly seven points across the entire business. This is an amazing achievement and shows the passion and commitment of our teams to work together and deliver change that supports them and our customers. All responses showed a positive improvement and we will continue to work collaboratively across the AA to build on this further.

We are committed to supporting diversity and ensuring that we promote the development of our people across our operations. This year, we refreshed our Diversity and Inclusion Policy to create six communities within the AA (gender balance, carers, ability, pride, origins and generations). All of our Executive Committee members sponsor a specific community ensuring that diversity and inclusion is at the forefront. We support the recommendations of the Hampton-Alexander and Parker Reviews on gender and ethnic diversity, and we continue to monitor our progress against these. During the year under review, the Company had 30% of women in Senior Management, 38% on its Executive Committee and 25% on its Board. The Company recognises that there is a higher proportion of men in technical roles in the automotive sector, which is reflected in the AA's gender pay gap report. To address this, we have been actively promoting and hiring women to our patrol apprentice programme. We are pleased to report that our new patrol apprentice cohort comprises 40% women.

What to look forward to

We are now focussing on cross-team working, involving all our employees and sharing their ideas to help improve our business. We are working hard to increase opportunities for development and career progression across the AA, and ensuring that we promote a culture of recognition and support, especially for our customer-facing teams. We will be conducting our next engagement survey in early summer 2020.

Our performance

Roadside

	Year ended Jan 20 (FY20)	Year ended Jan 19 (FY19)
Revenue (£m)	841	841
Trading EBITDA (£m)	290	283
Trading EBITDA margin (%)	34	34
Paid personal Members (m)	3.215	3.207
Average income per paid personal members (£)	165	162
Business customers (m)	9.0	9.8
Average income per business customer (£)	22	21
Number of breakdowns (m)	3.42	3.73

Revenue was flat in the year at £841m with the benefit of higher B2C income and the acquisition of AA Prestige offsetting the lower B2B revenue on pay-for-use contracts as well as the 51% disposal of AA Media during the year.

Trading EBITDA was up 2.5% to £290m while the Trading EBITDA margin was maintained at 34% , reflecting the solid performance of the Roadside Assistance business.

Business-to-consumer

In line with management expectations, the paid personal membership base returned to growth during the second half of the year resulting in a membership base that grew by 0.2% in FY20 to 3.215m (2019: 3.207m). The customer retention rate was broadly flat at 80%.

Average income per paid member rose to £165, up 2% since last year. The increase, which was 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

As previously announced, average income per business customer was up 5% to £22 and business customers fell to 9.0m (2019: 9.8m), principally due to our decision not to renew our contract with Groupe PSA as well as the anticipated decline in the number of AVAs with our banking partners and the reduction in new car registrations across the automotive sector. Our focus within B2B is on forming partnerships which are aligned from both a strategic and commercial perspective.

We retained or extended all of our key contracts in FY20 in line with commercial expectations, including TSB, Toyota, Hyundai, Lex Autolease and Northgate. We also won a number of new contracts including Admiral, Uber, Allianz, Alphabet, Lynk & Co and VWD ID (Volkswagen's all electric car proposition).

In February 2019, we announced the acquisition of AA Prestige, a profitable and growing technology-led supplier of SMR services to fleet and leasing companies. As part of our SMR rollout plan, we announced a new partnership with Uber in September 2019, through which we have successfully integrated our SMR platform, as well as the ability to request AA roadside assistance, into Uber's Driver app. We have also recently commenced the roll-out of SMR to all UK drivers through the soft launch of our Smart Care offering which is available on web-based channels.

In April 2019, we announced a three-year contract with Admiral to offer AA roadside assistance to Admiral's 4.3m UK motor insurance customers, our first significant contract in the insurance market. Since our launch in September, we have already added over 207,000 new Admiral customers to our B2B base.

Operational review

We continue to deliver best-in-class customer service delivery in our Roadside Assistance business and in November 2019 were pleased to have been awarded the UK's most reliable breakdown cover provider in 2019 by What Car? our second successive award by What Car? These awards build on our success in June 2019, when we were awarded top Which? Recommended Provider status for breakdown cover, achieving a top-scoring five stars within the 'fix at a roadside' category. Our service also won the top seven places in the Which? research for best manufacturer breakdown cover provider, a strong validation of our business model and the outstanding customer service delivery we provide to our OEM partners.

Within our Insurance business, we were pleased to have been awarded a second successive Gold Trusted Service Award by Feefo for delivering exceptional experience and being awarded a 5 star rating by Defaqto for our comprehensive car insurance policy.

Total breakdowns fell by 8% to 3.42m (2019: 3.73m), reflecting the more benign weather conditions during the year. This resulted in a reduction in third-party garaging costs which was partially offset by the lower revenue generated from our pay-for-use B2B contracts.

Overall call-to-arrive times averaged 46.5 minutes in the year, against our target of 45 minutes. We responded to a majority of calls to our call centre in 20 seconds and our repair rates and average repair times were also strong and ahead of last year.

Driving Services

Revenue in our Driving Services division, which consists of our Driving Schools and DriveTech businesses, declined by 1.6% to £62m (2019: £63m). This was due to our decision to reduce the number of unprofitable driving instructor franchises in our Driving Schools business, as well as the decline in the number of speed awareness courses for the police in our DriveTech business. A significant highlight for our DriveTech business in FY20 was the renewal of a new three-year award for Bedfordshire, Cambridgeshire and Hertfordshire framework contract (previously known as the Thames Valley Framework contract) as well as the Police Service Northern Ireland contract.

Looking ahead, under new leadership in both businesses, we are developing strategies to help return the Driving Services division back to sustainable growth. Within Driving Schools, we have invested significantly, improving our digital customer journeys for pupils, offering new more competitive franchise opportunities for instructors and layering in wider benefits such as Roadside membership through our Standby promotion. Within DriveTech, a key focus for the business will be to build new recurring revenue streams within our corporate driver training business.

Insurance

Revenue

	Year ended Jan 20 (FY20)	Year ended Jan 19 (FY19)
Revenue (£m)	154	138
Trading EBITDA (£m)	60	58
Trading EBITDA margin (%)	39	42
Total motor and home policy numbers in force[1] (000s)	1,713	1,561
Average income per policy excluding Underwriter[2] (£)	68	69
Average income per policy including Underwriter[2] (£)	83	80
Total Motor policies (000s)	869	731
Total Motor underwritten (000s)	448	339
Total Home policies (000s)	844	830
Total Home underwritten (000s)	332	259
Financial Services products[3] (000s)	90	112

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 loans drawn down and savings accounts opened.

Insurance revenue was up 12% to £154m driven by the growth of both the insurance broker and in-house underwriter.

Trading EBITDA improved by 3% to £60m, however, in line with expectations, the Trading EBITDA margin declined from 42% to 39%, reflecting the ongoing investment in marketing needed to position the business for long-term growth, as well as the increase in the lower-margin underwriter revenue.

Insurance services (including broking and financial services)

Revenue increased by 6% to £126m (2019: £119m) driven by the growth of the motor and home books. The motor policy book grew by 19% to 869,000 policies (2019: 731,000) and the home book grew by 2% to 844,000 (2019: 830,000), reflecting the continued strong growth of our in-house underwriter as well as the benefit of ongoing investment in systems including IHP for the broker. IHP has enabled us to price more competitively and convert a greater proportion of quotes on price comparison websites (PCWs). IHP is currently installed with seven of our panel members including Aviva who joined the panel late FY20. Currently, 85% of new motor business volumes are being written on IHP and we will continue to rollout this technology across the motor base. We will also commence the rollout of IHP across our home panel base soon starting with our in-house underwriter.

The strong growth of the non-member motor book and improvements in our customer journey are helping to deliver consistent and healthy conversions into our Roadside business with 36% of new insurance customers taking Roadside membership.

The ongoing investment in acquiring new business volumes, which have a lower average commission compared with the rest of the book, led to a reduction in the average income per motor and home policy to £68, compared with £69 last year. Including income from our in-house underwriter and Accident Assist business, average income per policy grew from £80 to £83.

In October 2019, we were pleased to announce the addition of Aviva, the UK's largest insurer, onto our broker panel for motor insurance. The addition of Aviva helps to expand the potential market for the AA broker, as well as provide competitive premiums for AA members and customers.

We took important steps in enhancing our claims and accident management capabilities during the year by bringing our motor claims first notification of loss processes fully in house to our new offices in Royal Tunbridge Wells for our in-house underwriter. This, together with the implementation of a new claims handling platform from ICE InsureTech, will help to facilitate a smoother end-to-end experience for our customers, deliver operational efficiencies, and provide firm foundations for our future growth. We plan to roll out this new capability across all our motor panel members over the next six months. This will deliver an accident management solution (to be called Accident Assist) for all our insurance customers and generate additional revenue to our Insurance business. Beyond insurance claims management, we are also developing our accident management capabilities to serve our broader membership, as we believe this will be a key differentiator for our roadside business moving forward.

By the end of January, we had 90,000 Financial Services products across our personal loans and savings portfolio. This represents a balance sheet size of approximately £642m, broadly matched by deposits and both of which are held on the balance sheet of Bank of Ireland. The loan book has continued to grow well in a competitive market with the combination of the AA's brand and distribution platform and the Bank of Ireland's expertise in service delivery offering a distinct competitive advantage. The AA membership base and brand are benefiting the business with 25% of the non-ISA savings books held by members and 35% of our personal loans being written for vehicles. On 31 March 2020, we extended our Financial Services Distribution Agreement with Bank of Ireland UK by three years to at least 2028. As part of the Agreement, our partnership now includes AA branded car finance products to sit alongside the successful savings and loans products.

Insurance underwriting

Revenue for our Insurance underwriting business grew strongly in the year to £28m compared with £19m in the prior year. Gross earned premiums were £70m (2019: £33m), while respective figures for gross written premiums (gross of co-insurance arrangements) were £130m and £99m. Deferral of broker commissions amounted to a reduction in revenue of £3m (2019: £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 profitable growth of the insurer using our proprietary data to deliver more competitive premiums, we grew the motor book by 32% from 339,000 to 448,000, driven largely by our non-member channel which is currently at 174,000 policies and the underwritten home book also grew strongly by 28% from 259,000 to 332,000.

Alongside the non-member policy growth, we are actively developing strategies to increase our online competitiveness and cross-sell capabilities to increase the penetration levels within our existing member base. Consistent with our strategic priority of broadening our competitive footprint, we recently soft launched our young driver insurance proposition through new reinsurance relationships, utilising our Smart Breakdown technology.

Our combined operating ratio was in line with our long-term target of 95%. We have also achieved strong rates of retention across our motor and home policies book. Net claims paid during the year were £23m (2019: £15m).

In line with expectations, Trading EBITDA was up £3m to £9m (2019: £6m), reflecting the solid growth this year.

The in-house underwriter business remains well capitalised under the Solvency II capital requirements. As at 31 January 2020, the solvency coverage headroom was 62% over requirement and can be funded from the profits of the underwriter and AA plc available cash.

Financial review

Group Revenue

	2020 £m	2019 £m
Roadside	**841**	841
Insurance	**154**	138
Revenue	**995**	979

Revenue grew by 2% to £995m, compared with £979m last year, reflecting the solid performance of both the Roadside and Insurance segments.

Roadside Revenue was flat at £841m (2019: £841m). The benefit of higher revenue generated in our B2C business as well as the acquisition of AA Prestige offset the lower B2B revenues on our pay-for-use contracts as well as the impact of the part disposal of AA Media during the year.

Insurance Revenue was up 12% to £154m (2019: £138m) driven by the growth in revenue from both the insurance broker and in-house underwriter.

Group Trading EBITDA

	2020 £m	2019 £m
Roadside	**290**	283
Insurance	**60**	58
Trading EBITDA	**350**	341
Trading EBITDA margin	**35%**	35%

In line with market expectations, Group Trading EBITDA increased by 3% to £350m, (2019: £341m), including £3m benefit related to the adoption of IFRS 16 as previously announced. Roadside Trading EBITDA increased by £7m to £290m reflecting the improved performance of our B2C business which delivered higher average income per paid member with a membership base that grew by 0.2% in FY 20, as well as the benefit of reduced third-party garaging costs. Insurance Trading EBITDA was up £2m to £60m, a solid performance reflecting the initial benefit of increased acquisition marketing spend by the broker over the last two years.

Trading EBITDA margin was stable at 35%, with sustained Roadside Trading EBITDA margins offsetting the anticipated reduction in Insurance Trading EBITDA margins due to accelerated investment in new business volumes.

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 17 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
- Adjusting operating items

We are required to remove each of these in calculating Trading EBITDA for the debt covenants. 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 and share-based payments are adjusted as they are a secondary impact of trading rather than part of underlying trading itself. Finally, adjusting operating items (previously referenced as exceptional items) are identified by virtue of their size or incidence and we separately disclose these in order to improve a reader's understanding of the financial statements. In the current year, adjusting operating items comprised £6m related to strategic review projects, £2m related to conduct and regulatory costs and £1m related to legal disputes, offset by a £2m gain on the disposal of 51% of AA Media Limited and £3m gain on the disposal of non-current assets.

The reconciliation from Trading EBITDA to operating profit before adjusting operating 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.

While Trading EBITDA will remain a requirement of the debt documents, management's focus is progressively moving towards operating profit and earnings per share.

Operating profit

			2020			2019
	Roadside £m	**Insurance £m**	**Group £m**	Roadside £m	Insurance £m	Group £m
Trading EBITDA	**290**	**60**	**350**	283	58	341
Share-based payments	**(2)**	**(3)**	**(5)**	(4)	(1)	(5)
Pension service charge adjustment	**(4)**	**–**	**(4)**	(5)	–	(5)
Contingent consideration remeasurement gain	**9**	**–**	**9**	1	–	1
Amortisation and depreciation	**(79)**	**(10)**	**(89)**	(66)	(7)	(73)
Operating profit before adjusting items	**214**	**47**	**261**	209	50	259
Adjusting operating items			**(4)**			(40)
Operating profit			**257**			219

Operating profit before adjusting operating items increased by £2m to £261m, a year-on-year increase of 1%. This was attributable to the increase in Trading EBITDA, the £8m increase in the contingent consideration remeasurement gain (see note 15), and the £1m reduction in the pension service charge adjustment. These were offset somewhat by the anticipated increase of £16m in amortisation and depreciation reflecting the historic and ongoing investments in IT.

The share-based payments charge was flat at £5m (2019: £5m) as a reduction in the employee share incentive plan charge was offset by the higher charge for the Insurance Long Term Bonus Plan. As the vesting performance conditions for all classes of the MVP shares were not met following the final testing date of 27 June 2019, the MVP shares have fully lapsed. The vesting performance conditions for the Long-Term Bonus Plan were also not satisfied on the testing date of 27 June 2019 and this plan also lapsed.

Net finance costs

	2020 £m	2019 £m
Interest on external borrowings	**129**	127
Finance charges payable on lease liabilities	**5**	4
Interest receivable from financial assets held for cash management purposes	**(1)**	(1)
Total ongoing cash net finance costs	**133**	130
Ongoing amortisation of debt issue fees	**14**	15
Fair value movement on interest rate swaps	**1**	–
Net finance expense on defined benefit pension schemes	**5**	6
Contingent consideration movements	**1**	2
Total ongoing non-cash finance costs	**21**	23
Adjusting finance costs	**–**	13
Adjusting finance income	**(4)**	**–**
Total net finance costs	**150**	166

Total net finance costs were £16m lower at £150m, largely due to the adjusting finance costs of £13m in the prior year related to the prior year refinancing and adjusting finance income of £4m relating to the net gain on settlement of debt in the current year.

Profit before tax

Profit before tax rose significantly to £107m (2019: £53m), an increase of 102%, reflecting the benefit of improved operational and financial performance during the year and the lower costs of adjusting operating items, mainly due to the one-off £22m pension past service cost in the prior year.

Taxation

The tax charge for the year increased to £20m (2019: £11m) reflecting the higher profitability. The tax charge consisted of a current tax charge of £16m (2019: £8m) and a deferred tax charge of £4m (2019: £3m). The effective tax rate was lower at 18.7% (2019: 20.8%), more in line with the UK statutory tax rate.

Profit after tax and earnings per share

Profit after tax was up significantly to £87m (2019: £42m) and basic earnings per share increased by 7.2p, from 6.9p to 14.1p.

Adjusted profit after tax and adjusted basic and diluted earnings per share fell to £87m (2019: £91m), 14.1p (2019: 14.9p) and 13.7p (2019: 14.9p) respectively reflecting the lower adjusting items as noted above (see note 3).

Net liabilities reduced

Net liabilities decreased in the year by £109m. The largest movement was due to the defined benefit pension deficit which decreased by £56m. This was primarily due to the performance of plan assets being above expectations, experience arising from the 2019 valuation for the AAUK pension scheme, changes in the demographic assumptions (reflecting the latest outlook for mortality rates and inclusion of the latest experience around retirement behaviour), and Group contributions paid into the schemes. This was partially offset by the changes in financial assumptions over the period (in particular a decrease in the discount rates).

In February 2020, the triennial actuarial review for the AAUK pension scheme was completed as at 31 March 2019. This resulted in a significant reduction to the technical provisions deficit of 64% from £366m as at 31 March 2016 to £131m and the agreed recovery plan aims to eliminate the technical provisions deficit in July 2025.The Group has committed to paying an additional (above the asset-backed funding scheme payments) £10m per annum from April 2020 to March 2021, £11m per annum from April 2021 to March 2022 and £12m per annum from April 2022 to July 2025. As a result of our actions, we expect to make around £6m in annual cash savings relative to the previous agreement.

As part of the AA's approach to proactively managing its pension liability, the AAUK scheme purchased a bulk annuity policy during the year which insures all the benefits payable under the scheme in respect of 1,790 pensioner and dependant members. The bulk annuity purchase is in addition to the policy purchased from Canada Life in the prior year, which insures the benefits payable under the scheme in respect of 2,510 pensioner and dependent members.

A range of proactive actions have been taken in recent years to reduce the risks associated with the pension scheme. The scheme's investment strategy has been developed such that its financial exposures to changes in long-term interest rates and inflation are now broadly 85-90% hedged. In addition, the two recent bulk annuity purchases have also hedged the associated longevity risks on c.20% of the scheme's IAS 19 liabilities. While risks remain, this represents significant progress in controlling our exposure to future increases in the deficit.

Consultation on the closure of the CARE section of the AAUK pension scheme commenced on 17 January 2020 through union and employee representatives and concluded on 18 March 2020. The Group had proposed that, from 1 April 2020, all future pension accrual would be on a defined contribution basis. Following a review of the feedback received during consultation, the Group has confirmed that the proposals will be implemented on a modified basis and future pension accrual will be on a defined contribution basis for all UK employees with transitional arrangements which will cost c.£11m over three years starting from 1 April 2020.

On an ongoing basis, the regular (non-transitional) pension accrual costs for the affected members are expected to be c.£4m per year lower than the current costs in the scheme as a result of the closure.

Importantly, closure also curtails the ongoing build-up of defined benefit risk for the Group.

Cash flow and liquidity

Free cash flow

	2020 £m	2019 £m
Trading EBITDA	**350**	341
Working capital and provisions excluding adjusting operating items	**17**	(17)
Pension deficit reduction contributions	**(26)**	(24)
Other items	**(4)**	(4)
Cash flow from continuing operating activities before taxation, adjusting operating items and capital expenditure	**337**	296
Tax paid	**(11)**	(15)
Capital expenditure including capital and interest payments on leases less proceeds from sale of fixed assets	**(98)**	(108)
Operating free cash flow after capital expenditure	**228**	173
Interest on borrowings less interest receivable	**(128)**	(128)
Operating free cash flow before adjusting operating items	**100**	45
Acquisitions and disposals	**(8)**	(10)
Adjusting operating Items	**(9)**	(23)
Free cash flow	**83**	12
Purchase of Bonds/Debt refinancing activities	**(28)**	(34)
Free cash flow to equity	**55**	(22)
Dividends paid	**(12)**	(12)
Net increase/(decrease) in cash and cash equivalents	**43**	(34)

Our business is delivering strong, predictable free cash flow and in line with our guidance, we generated £83m of free cash flow in FY20 (2019: £12m) before the costs of purchasing bonds, refinancing and dividends. Operating free cash flow after capital expenditure was also healthy at £228m (2019: £173m). This increased year on year partly due to the increase in Trading EBITDA along with significant movements in working capital and non-adjusting provisions (see below). Capital expenditure including capital and interest payments on leases less proceeds from sale of fixed assets reduced by £10m to £98m. This included lower capital expenditure, which was in line with our guidance at £69m (2019: £82m).

Pension deficit reduction payments of £26m (2019: £24m) were in line with the agreement made with the Pension Trustees in June 2017.

Our cash conversion measure of cash flow from continuing operating activities before taxation, adjusting operating items and capital expenditure as a percentage of Trading EBITDA also remains strong at 96% (2019: 87%) and was higher than the prior year principally due to significant movements in working capital and non adjusting provisions. The three main movements were: a cash receipt from HMRC in settlement of historic partial exemption claims, an increase in the claims provisions in our underwriter and timing differences in payments and receipts.

We are required to hold segregated funds as 'restricted cash' to satisfy requirements governing our regulated businesses, including the Insurance Underwriting business. These restricted cash balances have increased to £70m (2019: £36m) due to the growth in the Underwriting business and a restricted cash balance of £32m held due to a requirement in the Group's debt documents to deposit a calculated amount of 'excess cash' at the year end when within an 'accumulation period' (the 12 months before which any borrowings become due). The Class A3 notes are due on 31 July 2020 (see note 16) and are covered by the Senior Term Facility which has been drawn (see below). If not required, the excess cash will be returned to available cash on 31 July 2020.

Interest cover is calculated as the ratio of Trading EBITDA to total ongoing cash finance costs (see note 5) and was 2.6x (2019: 2.6x).

Capital management

The Group capital is a combination of net debt and equity. As at 31 January 2020, net debt was £2.6bn while the equity market capitalisation was £0.3bn.

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 through the successful delivery of our strategy as well as a proactive approach to managing our debt. Our leverage ratio reduced in the year to 7.6x due to the benefit of increasing profitability, higher cash balances and the bond buy-backs completed in the year.

We continue to have significant headroom in respect of our covenants and in addition also have significant additional liquidity available from £225m banking facilities, of which £221m remains undrawn.

As part of our commitment to proactively manage our debt this year, we successfully completed the buyback of £32m of A and B notes for £28m of cash and in February 2020 we exchanged £325m of Senior Secured A5 notes into new longer dated Senior Secured A8 notes which has enabled us to increase our average debt maturity from 3.3 to 3.9 years. The exchange offering was over 55% oversubscribed.

On 5 February 2020, S&P Global Ratings reaffirmed the credit rating of our Class A notes at BBB- and the Class B2 notes at B+.

Capital structure as at 31 January 2020

	Expected maturity date	Interest rate %	Principal £m
Class A2 notes	31 July 2025	6.27	500
Class A3 notes (forward starting new STF available)	31 July 2020	4.25	200
Class A5 notes	31 January 2022	2.88	697
Class A6 notes	31 July 2023	2.75	250
Class A7 notes	31 July 2024	4.88	550
Class B2 notes	31 July 2022	5.50	570
		4.52	**2,767**
Class B2 notes	Repurchased	(5.50)	(29)
Total loan notes		**4.51**	**2,738**
Lease liabilities			**66**
Cash and cash equivalents			**(159)**
Total net debt			**2,645**
Equity (valued at close on 31 January 2020)			**295**
Total capital as at 31 January 2020			**2,940**

The weighted average interest rate for all borrowings of 4.51% has been calculated using the effective interest rate and carrying values as at 31 January 2020. See note 21 for post year end borrowings table.

On 23 April 2020, we announced the early drawdown of our £200m Senior Term Facility to de-risk the planned refinancing of the remaining £200m A3 Notes 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-.

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 Group remains committed to the proactive management of its capital structure and will continue to assess all options as we go through FY21.

Net debt

Year ended 31 January	**2020 £m**	2019 £m
Class A notes	**2,197**	2,200
Less: AA Intermediate Co Limited group cash and cash equivalents	**(102)**	(20)
Net Senior Secured Debt[1]	**2,095**	2,180
Class B2 notes	**570**	570
Lease obligations for covenant reporting[2]	**39**	61
Net WBS debt[3]	**2,704**	2,811
IFRS 16 lease adjustment for WBS lease obligations[4]	**24**	–
AA plc group lease obligations[5]	**3**	–
Class B2 notes repurchased by AA plc	**(29)**	–
Less: AA plc cash and cash equivalents[6]	**(57)**	(96)
Total net debt	**2,645**	2,715
AA plc Trading EBITDA	**350**	341
AA Intermediate Trading EBITDA[7]	**340**	337
Net debt ratio[8]	**7.6x**	8.0x
Class B2 leverage ratio[9]	**8.0x**	8.3x
Senior leverage ratio[10]	**6.2x**	6.5x
Class A free cash flow: debt service[11]	**3.4x**	2.6x
Class B free cash flow: debt service[12]	**2.5x**	1.9x

1 Principal amounts of the Senior Term Facility and Class A notes less AA Intermediate Co Limited group cash and cash equivalents.
2 The lease obligations for covenant reporting value is presented based on frozen GAAP pre-IFRS 16, as required by the debt documents. The figure above is therefore different to the lease liabilities value shown in the statement of financial position.
3 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 lease obligations for covenant reporting less AA Intermediate Co Limited group cash and cash equivalents.
4 Difference between lease obligations for covenant reporting based on frozen GAAP and the lease liabilities value shown in the statement of financial position having adopted IFRS 16 from 1 February 2019.
5 Total lease obligations for the Group excluding the value reported as the AA Intermediate Co Limited group lease obligations.
6 Total cash and cash equivalents for the Group excluding the value reported as the AA Intermediate Co Limited group cash and cash equivalents.
7 AA Intermediate Co Limited group Trading EBITDA including discontinued operations as required by the debt documents based on frozen GAAP.
8 Ratio of Total Net Debt to AA plc Trading EBITDA for the last 12 months.
9 Ratio of Net WBS Debt[3] to AA Intermediate Trading EBITDA for the last 12 months.
10 Ratio of Net Senior Secured Debt[1] to AA Intermediate Trading EBITDA for the last 12 months.
11 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.
12 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 other finance activities which are not restricted.

The Group tests investment balances for impairment annually, which in the current year has resulted in an impairment to the carrying value of the Company's investment in subsidiaries.

Key cash release metrics

	2020	2019
Senior Leverage ratio[1]	**6.2x**	6.5x
Excess cash flow[2]	**£195m**	£91m
Fixed charge cover ratio[3]	**2.6x**	2.6x
Consolidated net income[4]	**£321m**	£267m

Note that the above table relates to the financial activities of the AA Intermediate Co Limited group and therefore the metrics therein will differ from those of the AA plc Group. Each of these metrics are required by the financing documents.

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.

At 31 January 2020 the Senior Leverage ratio was 6.2x. In order for this to reduce to 5.5x thus enabling dividends to be paid up to AA plc, either the AA Intermediate Co Limited group Trading EBITDA would need to increase by £41m or the AA Intermediate Co Limited group cash and cash equivalents would need to increase by £225m.

Dividends

The Group remains committed to the proactive management of its capital structure and reduction of debt and will continue to assess all options. Consistent with this approach, and also in light of the COVID-19 outbreak, the Board has decided to suspend the final dividend in respect of FY20. Total dividend payments in respect of FY20 will therefore remain 0.6p per share, representing the amount paid in respect of the interim dividend.

Kevin Dangerfield

Chief Financial Officer

6 May 2020

Risk management

Effective risk management remains key to the delivery of the AA's strategic objectives

AA Risk Management Framework

Risk registers

Our Risk Management Framework Policy requires all areas of the business to maintain a risk register which is reviewed on at least a quarterly basis. Risks from this 'bottom up' risk identification exercise are linked to the main principal risks identified by the Board. Each risk register 'owner' is required to formally self-certify the completeness and correctness of their risk register(s) on a quarterly basis and confirm the effectiveness of the corresponding controls. In addition, each senior member of the management team has his/her own set of top risks which are reviewed regularly. This year, we have undertaken a fundamental review of risk registers to remove complexity from the risk management process and have also reviewed our risk appetite statements.

Risk assessment

Risks are assessed and scored for probability and impact, both inherently (i.e. without controls) and residually (i.e. with controls). A target risk score is also set. If the residual risk score is higher than the target score, then either appropriate action is agreed to ensure that the risk exposure is returned to the desired target level or the increased risk exposure is formally accepted.

Incidents and near misses

An important part of the Risk Management Framework is the identification and reporting of incidents and near misses including root cause analysis. This helps to inform the assessment of risk and highlights areas for control improvement actions. The AA encourages and fosters a culture of open and honest incident and near miss reporting.

Key risk indicators/tolerances

The Risk Management Framework is also supported by key risk indicator management information. This is used to monitor the current risk position against the desired risk exposure and to monitor trends and changing factors enabling early corrective action. Management information provides regular updates to ensure that the risk exposure remains within the desired tolerance level or is brought to the attention of the relevant management for corrective actions to be taken. A formal risk acceptance process is in place to ensure that any request for material risk acceptance is documented, reviewed and agreed at an appropriate level of authority.

Control verification

The effectiveness of primary controls for key risks is verified through the operation and reporting of management 'snap checks' (control effectiveness tests).

Remedial actions

Management actions relate to a combination of risk, compliance and audit activity. These are documented and reported to the appropriate risk forum or executive risk owner and tracked to resolution.

Principal risks

The principal risks facing the Group are subject to regular review. In addition, the Board has performed a robust assessment of the principal risks facing the Group. A summary of these risks is detailed below, together with the key mitigating actions/controls, a summary of changes during the year and the primary KPIs.

Risk appetite

The risk appetite for the AA is documented and presented to the Risk Committee for review and debate and presented to the Board for approval. The AA's Risk Appetite Framework defines the amount of risk the organisation is willing to take in achieving its strategic objectives.

Appropriate and effective business risk reporting has been put in place to track the position against risk appetite. These reporting arrangements are regularly reviewed for adequacy and effectiveness.

Three lines of defence

The Company operates a 'three lines of defence' model. The model distinguishes between functions that have prime responsibility for identifying, owning and managing risks (first line), oversight and control functions (second line) and functions providing independent assurance (third line). All three lines of defence have specific tasks in the internal control governance framework.

Control assurance map

Our control assurance map takes information from the first line of defence to indicate any areas where controls are not operating effectively or where there have been risk incidents. Onto this we map the second line – compliance and risk monitoring – and third line – internal audit – assurance activity over a three year cycle to provide a view on the coverage of these monitoring assignments as well as the ratings of those assignments that have been completed. This is designed to ensure that the assurance plans cover the most appropriate areas.

Horizon Risk

At the end of FY20, COVID-19 emerged as a horizon risk for the AA. Since then, the business has continued to perform in line with our expectations through February and March but as we entered April we started to see greater variance as a result of COVID-19. We have responded quickly with changes to our operations, both in Roadside and Insurance, and material cost reduction programmes to mitigate the significant uncertainty ahead. We will continue to monitor the situation closely.

Key: Impact, likelihood and trend

v Decrease in risk profile <>Same as last year ^Increase in risk profile

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Principal risk:
Debt leverage

We are unable to manage our debt

Risk trend ^

Link to strategy:
Financial and other

Primary KPIs
- Leverage
- Interest cover
- Trading EBITDA
- Free cash flow

Description
The Company is unable to repay or refinance its debt at an acceptable price.

Mitigation
We have strong recurring cash flows which support the current capital structure, and which will enable us to reduce leverage over the long term in line with our stated strategy.

Change in the year
During the year we completed the buy back of £32m of Class A and B notes for £28m of cash (see note 17).

Impact, likelihood and trend
Following the refinancing on 5 February 2020 (see note 21), and the drawdown of the STF (to enable the repayment of the A3 notes), we have £0.9bn of debt to refinance by 2022.

The current bond market suggests that debt would need to be refinanced at a higher interest rate than the current debt and will, as with previous refinancings, require cash resources to be allocated to the associated one-off costs of enabling these transactions.

Consistent with our approach to proactive debt management, we continue to regularly take independent advice assessing a range of strategic options and are monitoring market conditions closely and we are ready to take advantage of market conditions if deemed necessary.

Modelling indicates that, even at higher interest rates, the business remains cash generative and able to meet its financing commitments.

Principal risk:
Regulatory and legal environment

A changing regulatory environment may adversely affect our activities

Material litigation against the AA

Risk trend ^

Link to strategy:
Financial and other

Primary KPIs
- FCA consultations and policy statements
- Level of FCA, PRA, GFSC and ICO supervisory interaction

Description
The changing regulatory environment could cause currently compliant services to become non-compliant, with material implications to customer offerings, pricing and profitability.

Failure to comply with regulatory obligations could result in claims, fines and reputational damage.

Changes in regulatory rules or guidance, legislation or taxation could impact the business model.

Mitigation
The AA has no appetite for deliberately breaching any regulatory or licensing requirements.

Close engagement with regulatory objectives is coupled with good governance and strong monitoring processes to ensure that we continue to focus on delivering products and services that result in good customer outcomes.

Our regulated Boards continue to actively review pricing practices in line with guidance from the FCA and in light of current market practice.

Regular dialogue is maintained with the FCA, the Gibraltar Financial Services Commission and other regulatory bodies.

Change in the year
The insurance industry has seen significant activity from the FCA in the areas of pricing practices, vulnerable customers and affordability in consumer credit. The AA has worked collaboratively with the FCA in responding to the 'Dear CEO' letters and data requests sent out to intermediaries and insurers and has been proactive in advising the FCA of any issues identified in the course of the year, none of which has been material. It has also engaged proactively on the FCA's interim report on pricing practices published in October 2019. Given recent political events, the AA continues to monitor the potential impact of Brexit on the AA's business and operations, which has previously been assessed as being minimal.

Impact, likelihood and trend
As in previous years, the regulatory environment continues to be dynamic with a continuing and demanding programme of regulatory initiatives. These additional requirements may drive further commoditisation into the market at the expense of superior service differentiation.

Potential remedies on pricing practices being considered by the FCA and continued increases in IPT could make insurance products, including roadside assistance, less affordable for our customers. Pricing practices remedies could also have the potential to stifle innovation and competition and impact on profitability, although this would be market wide.

Our Regulatory and Legal Change Committee tracks forthcoming changes and advises the business on changes required.

Products are reviewed regularly to reaffirm they are fit for purpose.

The AA has in house Legal and Compliance teams and also takes external legal advice, where deemed necessary.

Regulatory and legal issues remain a key focus of the Board and of the management team.

Principal risk:
Outstanding service

We are unable to maintain an outstanding service

Risk trend ∨

Link to strategy:
Innovate and grow Roadside

Primary KPIs
- Breakdowns attended
- Response times
- Percentage of completed repairs at the roadside
- Customer complaints

Description
The AA's brand and its continued success, and in particular the loyalty of its customers, relies on delivering outstanding service that is superior to the rest of the market. Inadequate investment in technology, systems, people and processes would place this objective at increasing risk.

Mitigation
Over the course of the last year, the AA has continued to invest to ensure that we have the optimal patrol and call centre headcount to meet demand and training and support to make sure we are well placed to provide a premium service to our customers throughout the year. The AA has also continued its program of foundational improvements in underlying systems and technology in order to improve stability and resilience.

Ongoing monitoring of complaints, press reports and social media through structured processes, including first line business assurance. Compliance and Risk oversight and internal audit helps to inform our service performance and offerings.

Change in the year
Our call to arrive time, repair rate, single-task-completion and under-bonnet times are improved since last year. Our continued investment has increased the flexibility of the patrol force and improved our forecasting in the areas of planning and delays, to ensure that we are better placed to respond to extreme weather events.

Impact, likelihood and trend
Delivering outstanding service remains fundamental to our future and our brand. The impact of failure to deliver the best service in the market would be very high. The actions we have taken to increase the flexibility of the patrol force, increase contact centre capability and improve our forecasting will reduce the probability of this risk crystallising.

Inclement weather will always have an impact on demand and we continue to learn lessons from these events in order to better respond to customer demand and to make sure we are in the best position to react to significant weather extremes.

Principal risk:
Roadside market share and margin

We are unable to maintain our market share and an ability to command a price premium on our roadside services

Risk trend <>

Link to strategy:
Innovate and grow Roadside

Primary KPIs
- Paid personal members
- Business customers
- Average income per member
- Average income per business customer

Description
Competitors that provide roadside services at a lower price or have a different business model, together with changes in car technology, threaten our market share. If we charge a price premium that is above what our service can sustain, we will not grow our member or B2B customer base and, in the long term, sustainably grow profits. We need to improve, innovate, demonstrate and deliver a superior proposition and ensure our pricing is competitive relative to this position. We also need to ensure that our pricing practices are in line with the expectations of our customers and regulators.

Mitigation
We are continuing to improve our roadside membership proposition by strengthening our roadside product offerings and engaging more members in additional benefits.

We have improved our communications with both new and existing members, engaging members in their existing services and benefits to drive loyalty.

Our pricing team has significant expertise to monitor market pricing levels and ensure that we are treating both new and loyal customers fairly while remaining competitive.

Change in the year
The personal paid membership base has remained stable in the last 12 months. We have retained key B2B contracts and initiated new partnerships with Uber and Admiral.

Our Smart Breakdown product continues to be deployed through a range of channels, and the membership benefits proposition continues to be enriched.

Impact, likelihood and trend
Long term the AA will continue to find it challenging to grow profit sustainably if its membership is declining. Therefore, the impact of membership growth is critical in the long term, as is maintaining key business relationships such as the Lloyds Banking Group and TSB contracts which both renewed in 2019, and other B2B contracts, including major car manufacturers.

The business is focused on realising a sustainably growing membership and recognises the need for a more distinctive and differentiated offering to mitigate competitive pressures.

Principal risk:
Insurance broking

We are unable to achieve desired margin, remain competitive and achieve our growth and profitability objectives

Risk trend <>

Link to strategy:
Insurance growth

Primary KPIs
- Insurance policies
- Average income per motor and home policy

Description
Consumers' ongoing use of price comparison sites may continue to transfer value away from our insurance broking business. Potential remedies on pricing practices being explored by the FCA could inhibit growth and the ability to remain competitive.

Mitigation
We continue to use our strengths in the brand, channels and data to mitigate this risk, to extend our panel of insurers and to engage with regulators in a collaborative way.

Change in the year
The insurance business remains on track to deliver forecast growth in customer numbers. By maintaining a competitive panel of insurers and innovating through developments such as insurer hosted pricing, analytics support and fraud detection, we continue to increase our motor and home policy numbers. We have also expanded our panel members with the addition of Aviva and this should secure additional growth. Utilising our in-house capacity we have extended our footprint through new member propositions. The dominance of price comparison sites in this sector places pressure on margin but we work with them to maximise value for mutual benefit, for example through targeted growth and promotional offers. Engagement continues with the FCA on explaining the work undertaken by the AA in previous years on pricing practices and responding to information requests.

Impact, likelihood and trend
The competitive threat from price comparison sites remains unchanged. However, the success of our panel model in the broker and the adoption of insurer hosted pricing enables us to better respond to this threat. Through our in-house underwriter that sits on the panel of insurers, we commenced broadening our target market footprint in FY19 by targeting customers who are not members of the AA and we continue to see growth in this area. The impact of any remedies arising from the FCA's pricing practices review and the continued regulatory focus on value for money has the potential to impact on the insurance industry as a whole but the AA has been proactive in responding to FCA concerns previously raised and believes it is well placed to respond to the remedies the FCA may require industry to implement.

Principal risk:
Insurance underwriting

Higher than anticipated claims costs

Risk trend <>

Link to strategy:
Insurance growth

Primary KPIs
- Underwritten insurance policies
- Claims frequency, claims cost control and combined loss ratios

Description
There are risks of higher than expected claims frequency, higher average cost per claim or catastrophic claims.

Mitigation
Strict underwriting guidelines are used to ensure that claims frequency and costs remain within expected levels. The reinsurance structure using coinsurance and quota share proportionately reduces the AA's risk. Excess of loss and catastrophe reinsurance is also used to protect against costly individual claims and events. We continually monitor claims frequency and trends and adjust pricing in the event of higher than expected claims frequency or cost per claim. We also analyse root cause of these and take appropriate action.

Change in the year
This remains on track to deliver growth with sustainable and profitable return on capital. The introduction of a new claims management system in 2019 is a future enabler to claims cost control and will enhance the customer claims journey.

Impact, likelihood and trend
The occurrence of very large one-off claims is expected to be low in volume, but we have reinsurance arrangements in place which caps our maximum exposure per claim. The occurrence of smaller claims is built into our pricing models and is carefully monitored.

Principal risk:
Change management & IT transformation

We are unable to successfully complete essential business transformation

Risk trend <>

Link to strategy:
Operational and service excellence

Primary KPIs
- Trading EBITDA
- Free cash flow

Description
We must continue to transform the AA to achieve the required efficient customer-centric services and to develop the business.

Although much has been achieved in the last year, there remains much to do and the required improvements to process, embedded ways of working and culture, inherently involve risks in a customer-facing service environment.

Mitigation
There is an ongoing delivery capability and technology improvement programme in place with progress tracked at regular Management Business Reviews.

A rigorous approach is taken in implementing changes to achieve satisfactory control, with ongoing monitoring and reporting.

Change in the year
We have continued to improve our technology, data and digital capabilities to drive sustained benefits in customer and employee experience. We are executing against a disciplined programme of capex investment and will continue to review timelines and priorities as part of the execution of our declared strategy.

Impact, likelihood and trend
Strong management capability and oversight have been put in place to continue to better manage this risk.

We have a talent management model in place, where skills gaps are identified and development and/or recruitment initiatives are actioned.

Principal risk: Information security/Cyber crime/Data breach

We are unable to protect ourselves from a significant data breach or cyber security incident

Risk trend <>

Link to strategy:
Financial and other

Primary KPIs
- Data breach incidents

Description
The integrity of critical information is corrupted, resulting in it not being available where and when it is needed, or the confidentiality of commercially sensitive, private or customer information is compromised by inappropriate disclosure or a serious data breach occurs.

Mitigation
The AA has an ongoing programme of security improvements to maintain an appropriate level of security against the increasingly sophisticated global cyber threats. Controls include information security awareness training, preventative and detective security and a specialist information security team with a much improved 24/7 security operations capability, with a focus on incident response and data breach readiness. Information security requirements are included in third-party arrangements, including B2B and supplier contracts.

The AA benchmarks its security controls against the Standard for Information Security (ISO27001) and an annual review of the effectiveness of these controls is performed by an independent third party. Our strategy is adjusted (where necessary) within the context of the annual review and within the constraints of our business.

Change in the year
A comprehensive information security programme has delivered significant improvements on technology, data, colleague and third-party supplier risks; a high level of focus will continue to reduce the risk, but the risk remains high. Visibility of system and user behaviour remains key to improving our ability to orient our security posture to the real-world risks and improving our visibility has been a key focus for this year.

Improving awareness and enforcement of security policy is driving cultural change, and this must be maintained.

Impact, likelihood and trend
As for any company, the impact of this risk crystallising could be substantial. Focus has shifted from defence to proactive detection and investigation of security events, minimising the time between discovery and reporting to the regulator(s) or B2B partners and minimising the risk and the opportunities for any security event to be exploited by cyber criminals.

While our ability to detect and respond to security events and data breaches continues to improve, there is a commensurate increase in cyber crime-related security events and data breaches globally, affecting multiple organisations, in multiple industry verticals. The likelihood of the AA succumbing to a significant security event or data breach must be considered to be possible, but less likely, as we continue to layer in additional security controls and supporting technology.

The AA continues to use external parties to independently verify its ability to manage and reduce this risk, adjusting our strategy to meet any change to the threat landscape.

Principal risk: Health and safety

We are unable to maintain the safety of our workforce and customers

Risk trend <>

Link to strategy:
Operational and service excellence

Primary KPIs
- Lost time injury rate
- Reportable incidents (RIDDOR)

Description
We must continue to effectively manage the risks to our workforce's and customers' safety and ensure that effective controls are deployed to achieve this. Accountability to take action is essential in this as is oversight, review and embracing continual improvement.

Mitigation
Close engagement with employees and their representatives is coupled with good governance and management accountability.

We have a robust and externally audited integrated health, safety and environmental (HS&E) management system as well as local arrangements where appropriate.

We regularly review all our HS&E risks and controls to ensure that they remain fit for purpose.

We have in place safety improvement programmes which are SMART and drive the continual improvements we aspire to.

We have a robust monitoring and assurance process which includes safety performance being reviewed at Board meetings as well as at every Executive Risk and Compliance Committee meeting.

We have a dedicated team of health and safety advisers who are all members of the Institution of Occupational Safety and Health.

Change in the year
The AA continues to strive to maintain a safe environment for employees and members.

We have enhanced our safety advice to members at the point of breakdown, both in our AA app and when they call us at the first point of contact.

Impact, likelihood and trend
Protecting our employees' safety while they are at work is fundamental to our brand. The impact of failure to look after our employees would be very high and could result in not only an increase in civil claims, but also in enforcement action against the company and/or its Directors.

Protecting our customers is also of paramount importance. As the market leader for roadside repair and recovery our members safety is always considered when agreeing working practices. This will always be the case and members can rely on the AA brand to put safety first.

The consequences of poor safety at the roadside can be fatal. AA working practices are designed to reduce the probability of accidents to a minimum although given the environment in which we provide roadside service it is not possible to eliminate this risk.

	We deploy best practice, both that seen internally as well as externally. We are an active member of SURVIVE, the industry group working towards improving safety for those working at the roadside and we have an external expert chair of our core Health and Safety Committee, to ensure good governance and independent scrutiny.	
Principal risk: Pensions We are unable to meet our pension liabilities **Risk trend** ∨ **Link to strategy:** Financial and other	**Description** The Company has a large defined benefit (DB) pension scheme, currently in deficit, whose assets and obligations are subject to future variation from investment returns, longevity and other similar factors. **Mitigation** The UK pension scheme is supported by a company covenant and the assets and obligations of the scheme are kept under review. The DB scheme is now closed to new entrants and future accrual.	**Change in the year** In February 2020, the triennial valuation of the UK pension scheme was completed as at 31 March 2019 and a funding deficit of £131m was agreed. This has significantly reduced from the £366m deficit agreed in June 2017 and consequently, payments required under the deficit recovery additional funding plan will reduce. The new recovery plan agreed with the trustees assumes that the deficit will be fully repaid in July 2025. In addition, in March 2020, a pension consultation process was successfully completed resulting in the closure of the CARE section of the UK pension scheme. From 1 April 2020, all future pension accrual will be on a defined contribution basis with transitional arrangements for affected employees over a 3 year period from 1 April 2020. **Impact, likelihood and trend** While potential continuing volatility in the markets and global economic uncertainty can still impact the deficit, the changes noted above mean that the ongoing build-up of defined benefit risk is curtailed.

Directors' responsibilities statement

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

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

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

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

Directors' confirmations

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the governance report confirm that, to the best of their knowledge:

The Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law), give a true and fair view of the assets, liabilities, financial position and loss of the Company

The Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group

The Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

The statement of Directors' responsibilities was approved by the Board on 6 May 2020 and signed on its behalf by:

Simon Breakwell

Chief Executive Officer

Kevin Dangerfield

Chief Financial Officer

Consolidated income statement

	Note	for the year ended 31 January **2020** **£m**	 2019 £m
Revenue	2	**995**	979
Cost of sales		**(393)**	(399)
Gross profit		**602**	580
Administrative and marketing expenses		**(346)**	(361)
Other income	14	**1**	-
Operating profit		**257**	219
Finance costs	5	**(155)**	(167)
Finance income	6	**5**	1
Profit before tax		**107**	53
Tax expense	7	**(20)**	(11)
Profit for the year		**87**	42

Earnings per share from the profit for the year:

	Note	**2020** **pence**	2019 pence
Basic from total operations	8	**14.1**	6.9
Diluted from total operations	8	**13.7**	6.9

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

Consolidated statement of comprehensive income

	Note	for the year ended 31 January **2020** **£m**	 2019 £m
Profit for the year		**87**	42
Other comprehensive expense on items that may be reclassified to the income statement in subsequent years			
Effective portion of changes in fair value of cash flow hedges		**(2)**	(6)
Tax effect	7	**–**	1
		(2)	(5)
Other comprehensive income on items that will not be reclassified to the income statement in subsequent years			
Remeasurement gains on defined benefit schemes	19	**39**	30
Tax effect	7	**(7)**	(5)
		32	25
Total other comprehensive income		**30**	20
Total comprehensive income for the year		**117**	62

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

Consolidated statement of financial position

	Note	**2020 £m**	2019 £m
		as at 31 January	
Non-current assets			
Goodwill and other intangible assets	9	**1,354**	1,331
Property, plant and equipment	11	**52**	123
Right-of-use assets	12	**69**	-
Investments in joint ventures and associates		**5**	5
Financial assets at amortised cost		**4**	-
Deferred tax assets		**9**	22
		1,493	1,481
Current assets			
Inventories		**4**	4
Trade and other receivables	13	**257**	223
Cash and cash equivalents	14	**149**	116
		410	343
Assets classified as held for sale		**12**	6
Total assets		**1,915**	1,830
Current liabilities			
Trade and other payables	15	**(495)**	(462)
Current tax payable		**(8)**	(3)
Borrowings and loans	16	**(200)**	-
Lease liabilities		**(23)**	(49)
Provisions	18	**(5)**	(3)
		(731)	(517)
Non-current liabilities			
Borrowings and loans	16	**(2,506)**	(2,724)
Derivative financial instruments		**(2)**	-
Lease liabilities		**(43)**	(12)
Defined benefit pension scheme liabilities	19	**(162)**	(218)
Provisions	18	**(6)**	(4)
Deferred consideration	15	**-**	(10)
Insurance technical provisions		**(43)**	(30)
		(2,762)	(2,998)
Liabilities classified as held for sale		**(3)**	(5)
Total liabilities		**(3,496)**	(3,520)
Net liabilities		**(1,581)**	(1,690)
Equity			
Share capital		**1**	1
Share premium		**410**	408
Own shares		**(33)**	(31)
Cash flow hedge reserve		**(2)**	-
Retained earnings		**(1,957)**	(2,068)
Total equity attributable to equity holders of the parent		**(1,581)**	(1,690)

The financial statements were approved by the Board of Directors on 6 May 2020 and signed on its behalf by

Simon Breakwell

Chief Executive Officer

Kevin Dangerfield

Chief Financial Officer

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

Consolidated statement of changes in equity

	Share capital £m	Share premium £m	Own shares £m	Cash flow hedge reserve £m	Retained earnings £m	Total £m
At 1 February 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)**
Profit for the year	-	-	-	-	87	87
Other comprehensive income	-	-	-	(2)	32	30
Total comprehensive income	-	-	-	(2)	119	117
Dividends	-	-	-	-	(12)	(12)
Issue of share capital	-	2	-	-	-	2
Purchase of own shares	-	-	(2)	-	-	(2)
Share-based payments	-	-	-	-	4	4
At 31 January 2020	**1**	**410**	**(33)**	**(2)**	**(1,957)**	**(1,581)**

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 2020 £m	2019 £m
Profit before tax		**107**	53
Amortisation, depreciation and impairment	9,11,12	**89**	78
Net finance costs	5,6	**150**	166
Difference between pension charge and cash contributions		**(22)**	2
Other adjustments to profit before tax		**(11)**	3
Working capital and provisions:			
Increase in trade and other receivables		**(34)**	(23)
Increase/(decrease) in trade and other payables		**30**	(3)
Increase/(decrease) in provisions		**19**	(3)
Total working capital and provisions adjustments		**15**	(29)
Net cash flows from operating activities before tax		**328**	273
Tax paid		**(11)**	(15)
Net cash flows from operating activities		**317**	258
Investing activities			
Capital expenditure		**(69)**	(82)
Payment for acquisition of subsidiary, net of cash acquired		**(8)**	(13)
Proceeds from sale of joint venture		**-**	2
Dividends from joint ventures and associates		**-**	1
Interest received		**1**	1
Net cash flows used in investing activities		**(76)**	(91)
Financing activities			
Proceeds from borrowings		**15**	565
Issue costs on borrowings		**-**	(10)
Debt repayment premium and penalties		**-**	(17)
Settlement of interest rate hedges		**-**	(7)
Repayment of borrowings		**(43)**	(565)
Refinancing transactions		**(28)**	(34)
Interest paid on borrowings		**(129)**	(129)
Lease capital repayments net of proceeds from sale of fixed assets		**(25)**	(22)
Payment of lease interest		**(4)**	(4)
Dividends paid		**(12)**	(12)
Net cash flows used in financing activities		**(198)**	(201)
Net increase/(decrease) in cash and cash equivalents		**43**	(34)
Cash and cash equivalents at 1 February		**116**	150
Cash and cash equivalents at 31 January	14	**159**	116

The cash flows from operating activities are stated net of cash outflows relating to adjusting operating items of £9m (2019: £23m). This relates to strategic initiatives of £6m (2019: £16m), conduct and regulatory costs of £2m (2019: £2m), net cash outflows from property lease provisions of £1m (2019: £2m), costs of reimbursing customers who bought duplicate breakdown cover of £nil (2019: £1m), legal dispute costs of £nil (2019: £1m) and corporate transaction costs of £nil (2019: £1m).

Other adjustments to profit before tax outflow of £11m (2019: inflow of £3m) include other income £1m (2019: £nil), share-based payment charge of £4m (2019: £5m), profit on sale of fixed assets of £5m (2019 profit: £1m) and credit on remeasurement of contingent consideration of £9m (2019 credit: £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 2020 or 2019 but is derived from those accounts. The statutory accounts for the year ended 31 January 2019 have been delivered to Companies House and those for 2020 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 2020 Annual Report and Accounts.

2 Segmental information

The Group has two key segments – Roadside and Insurance. Head Office costs have been allocated to these two key segments as these costs principally directly support the operations of these segments. Head office costs are predominately allocated on a percentage of revenue basis.

The two reportable operating segments are 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 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 and its intermediary financial services business. This segment also includes the insurance underwriting and reinsurance activities of the AA.

	2020 **£m**	2019 £m
Revenue		
Roadside	**841**	841
Insurance	**154**	138
Revenue	**995**	979
Trading EBITDA		
Roadside	**290**	283
Insurance	**60**	58
Trading EBITDA	**350**	341
Share-based payments	**(5)**	(5)
Contingent consideration remeasurement gain (see note 15)	**9**	1
Pension service charge adjustment (see note 3)	**(4)**	(5)
Amortisation and depreciation (see notes 9, 11, 12)	**(89)**	(73)
Operating profit before adjusting operating items	**261**	259
Adjusting operating items (see note 4)	**(4)**	(40)
Operating profit	**257**	219
Net finance costs (see note 5 and 6)	**(150)**	(166)
Profit before tax	**107**	53

2 Segmental information (continued)

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

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

Adjusting operating 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.

	Roadside		**Insurance**	
Operating profit before adjusting operating items	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Trading EBITDA	**290**	283	**60**	58
Share-based payments	**(2)**	(4)	**(3)**	(1)
Pension service charge adjustment	**(4)**	(5)	**–**	–
Contingent consideration remeasurement gain	**9**	1	**–**	–
Amortisation and depreciation	**(79)**	(66)	**(10)**	(7)
Operating profit before adjusting operating items	**214**	209	**47**	50

3 Adjusted performance measures

These financial statements 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 financial statements 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 EBITDA is profit after tax on a continuing basis as reported, adjusted for depreciation, amortisation, adjusting 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	
		2020	2019
	Note	**£m**	£m
Trading EBITDA	2	**350**	341
Share-based payments		**(5)**	(5)
Contingent consideration remeasurement gain	15	**9**	1
Pension service charge adjustment		**(4)**	(5)
Amortisation and depreciation	9,11,12	**(89)**	(73)
Adjusting operating items	4	**(4)**	(40)
Operating profit		**257**	219

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.

	2020	2019
Profit after tax as reported (£m)	**87**	42
Adjusted for:		
Adjusting operating items (see note 4) (£m)	**4**	40
Share-based payments (£m)	**5**	5
Contingent consideration remeasurement gain (see note 15) (£m)	**(9)**	(1)
Pension service charge adjustment (£m)	**4**	5
Adjusting finance costs (see note 5) (£m)	**–**	13
Adjusting finance income (see note 6) (£m)	**(4)**	–
Tax expense (see note 7) (£m)	**20**	11
Adjusted profit before tax (£m)	**107**	115
Tax at the effective rate of 18.7% (2019: 20.8%) (£m)	**(20)**	(24)
Adjusted profit after tax (£m)	**87**	91
Weighted average number of shares outstanding (millions)	**615**	612
Adjusted basic earnings per share (pence)	**14.1**	14.9
Weighted average number of diluted ordinary shares (see note 8) (millions)	**634**	612
Adjusted diluted earnings per share (pence)	**13.7**	14.9

4 Adjusting operating items

	2020 £m	2019 £m
Pension past service cost	**–**	22
Impairment of intangible fixed assets (see note 9)	**–**	5
Other adjusting operating items	**4**	13
Total adjusting operating items	**4**	40

In the current year, other adjusting operating items comprised £6m related to strategic review projects, £2m related to conduct and regulatory costs (see note 18) and £1m related to legal disputes offset by a £2m gain on the disposal of 51% of AA Media Limited and £3m gain on the disposal of other non-current assets.

In the prior year, other adjusting operating items comprised £7m related to strategic review projects, £2m related to conduct and regulatory costs, £1m related to legal disputes, £1m related to corporate transactions, £2m related to customer compensation, £1m of additional onerous property costs and £1m gain on the disposal of non-current assets.

In the prior year the Group recognised a one-off pension past service cost of £22m as a result of Guaranteed Minimum Pension (GMP) equalisation and an impairment charge against software assets of £5m (see note 9).

Costs from the prior year refinancing in July 2018 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 17).

5 Finance costs

	2020 £m	2019 £m
Interest on external borrowings	**129**	127
Finance charges payable on lease liabilities	**5**	4
Total ongoing cash finance costs	**134**	131
Ongoing amortisation of debt issue fees	**14**	15
Fair value movement on interest rate swaps	**1**	–
Contingent consideration movements	**1**	2
Net finance expense on defined benefit pension schemes	**5**	6
Total ongoing non-cash finance costs	**21**	23
Debt repayment penalties	**–**	15
Transfer from cash flow hedge reserve for extinguishment of cash flow hedge	**–**	(8)
Debt issue fees immediately written off following repayment of borrowings	**–**	6
Adjusting finance costs	**–**	13
Total finance costs	**155**	167

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

During the prior year, £6m of amortised debt issue fees were immediately written off following the refinancing.

During the prior year, the Group also repaid £250m of the Senior Term Facility and transferred the £8m gain in fair value of the cash flow hedges related to the repayment to the income statement.

6 Finance income

	2020 £m	2019 £m
Interest receivable from financial assets held for cash management purposes	**1**	1
Total ongoing cash finance income	**1**	1
Net gain on settlement of debt (see note 17)	**4**	–
Adjusting finance income	**4**	–
Total finance income	**5**	1

7 Tax

The major components of the income tax expense are:

	2020 £m	2019 £m
Consolidated income statement		
Current income tax		
Current income tax charge	**16**	7
Adjustments in respect of prior years	**–**	1
	16	8
Deferred tax		
Origination and reversal of temporary differences	**4**	5
Adjustments in respect of prior years	**–**	(2)
	4	3
Tax expense in the income statement	**20**	11

	2020 £m	2019 £m
Consolidated statement of comprehensive income		
Tax on the effective portion of changes in fair value of cash flow hedges	**–**	(1)
Tax on remeasurements of defined benefit pension liability	**7**	5
Income tax charged directly to other comprehensive income	**7**	4

	2020 £m	2019 £m
Consolidated statement of changes in equity		
Tax on implementation of IFRS 9	**–**	2
Deferred tax recognised directly in equity	**–**	2

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

	2020 £m	2019 £m
Profit before tax	**107**	53
Tax at rate of 19% (2019: 19%)	**20**	10
Adjustments relating to prior years	**–**	(1)
Expenses not deductible/(chargeable) for tax purposes:		
– Share-based payments	**–**	1
– Amounts relating to acquisitions and disposals	**(1)**	–
– Other non-deductible expenses/non-taxed income	**1**	1
Income tax expense reported in the consolidated income statement at effective rate of 18.7% (2019: 20.8%)	**20**	11

8 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.

	2020	2019
Basic earnings per share:		
Profit after tax from total operations (£m)	**87**	42
Weighted average number of shares outstanding (millions)	**615**	612
Basic earnings per share from total operations (pence)	**14.1**	6.9

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 therefore any dilution is immediately accounted for in the earnings per share and the issue of matching shares has no further dilutive effect. As at 31 January 2020, there are no outstanding shares to be issued under these schemes that are potentially dilutive.

The Group had another class of potentially dilutive ordinary shares relating to the Management Value Participation ('MVP') shares. As the vesting conditions for all classes of MVP shares were not met following the final testing date of 27 June 2019, the shares were not dilutive. At 31 January 2019, based on the average market value of ordinary shares for the period, it was considered that the MVP shares were unlikely to vest and so were not dilutive in the prior year. The MVP shares lapsed on 27 June 2019 and were converted into deferred shares.

As at 31 January 2020, the Performance Share Plan ('PSP') 2019 and Insurance Long Term Bonus Plan ('Insurance LTBP') share schemes are considered to be potentially dilutive and are included in the diluted earnings per share below. There are no further classes of share that we believe will have a material dilutive impact as at 31 January 2020.

	2020	2019
Weighted average number of ordinary shares in issue (millions)	**615**	612
Potentially dilutive shares (millions)	**19**	–
Weighted average number of diluted ordinary shares (millions)	**634**	612
Diluted earnings per share from total operations (pence)	**13.7**	6.9

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).

9 Goodwill and other intangible assets

	Goodwill £m	Customer relationships £m	Software £m	Total £m
Cost				
At 1 February 2018	1,197	–	254	1,451
Additions	–	–	69	69
Disposals	–	–	(66)	(66)
At 31 January 2019	**1,197**	**–**	**257**	**1,454**
Additions	–	11	58	69
Disposals	–	–	(14)	(14)
At 31 January 2020	**1,197**	**11**	**301**	**1,509**
Accumulated amortisation and impairment				
At 1 February 2018	27	–	124	151
Amortisation	–	–	33	33
Impairment	–	–	5	5
Disposals	–	–	(66)	(66)
At 31 January 2019	**27**	**–**	**96**	**123**
Amortisation	–	1	45	46
Disposals	–	–	(14)	(14)
At 31 January 2020	**27**	**1**	**127**	**155**
Net book value				
At 31 January 2020	**1,170**	**10**	**174**	**1,354**
At 31 January 2019	1,170	–	161	1,331

Within software, £29m (2019: £58m) relates to assets under construction which are not amortised.

Software additions comprise £12m (2019: £11m) in relation to internally developed assets and £46m (2019: £58m) in relation to separately acquired assets.

During the prior year, there was an impairment charge against software assets of £5m. This related to the impairment of certain software assets as it was determined that those particular assets would no longer be used.

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

An annual impairment review has been performed over the goodwill balance, see note 20 for details.

10 Business combinations

Acquisitions during the year ended 31 January 2020

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 acquisition, assets and liabilities acquired included £3m cash and £2m trade and other payables. Goodwill of £10m was initially recognised but was subsequently reallocated within the permitted measurement period, comprising additions of £11m to customer relationships, £1m to software and £2m to deferred tax liabilities. At the point of acquisition, the combined fair value of net assets acquired was therefore £11m, which resulted in £nil goodwill being recognised. The net outflow of cash to acquire these subsidiaries was £8m.

Prestige Motor Care Holdings Limited and its subsidiaries generated a combined revenue of £18m for the year ended 31 January 2020.

Acquisitions during the year ended 31 January 2019

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

Disposals during the year ended 31 January 2020

On 29 March 2019, the Group completed the sale of 51% of the share capital of AA Media Limited. See note 4 for further details.

Disposals during the year ended 31 January 2019

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

11 Property, plant and equipment

	Freehold land & buildings £m	Buildings on long leasehold land £m	Vehicles £m	Plant & equipment £m	Total £m
Cost					
At 1 February 2018	24	7	104	104	239
Additions	–	5	34	7	46
Disposals	–	–	(25)	(25)	(50)
At 31 January 2019	**24**	**12**	**113**	**86**	**235**
Adjustment for change in accounting policy	–	–	(111)	(8)	(119)
At 1 February 2019 restated	24	12	2	78	116
Additions	–	–	2	7	9
Reclassification	–	(5)	–	5	–
Disposals	–	–	–	(10)	(10)
At 31 January 2020	**24**	**7**	**4**	**80**	**115**
Accumulated depreciation and impairment					
At 1 February 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**
Adjustment for change in accounting policy	–	–	(45)	(8)	(53)
At 1 February 2019 restated	8	4	2	45	59
Charge for the year	1	–	2	11	14
Disposals	–	–	–	(10)	(10)
At 31 January 2020	**9**	**4**	**4**	**46**	**63**
Net book value					
At 31 January 2020	**15**	**3**	**–**	**34**	**52**
At 31 January 2019	16	8	66	33	123

Within plant and equipment £3m (2019: £4m) and within buildings on long leasehold land £nil (2019: £5m) relates to assets under construction which are not depreciated.

12 Right-of-use assets

This note provides information for leases where the Group is a lessee. Under IFRS 16, right-of-use assets are recognised in the statement of financial position in respect of leased assets. The Group has therefore recognised right-of-use assets in the statement of financial position from the Group's date of transition to IFRS 16, being 1 February 2019.

	Property £m	Vehicles £m	Plant & equipment £m	Total £m
Cost				
At 1 February 2019	–	–	–	–
Adjustment for change in accounting policy	23	111	8	142
At 1 February 2019 restated	23	111	8	142
Additions	4	33	–	37
Disposals	–	(71)	–	(71)
At 31 January 2020	**27**	**73**	**8**	**108**
Accumulated depreciation and impairment				
At 1 February 2019	–	–	–	–
Adjustment for change in accounting policy	–	45	8	53
At 1 February 2019 restated	–	45	8	53
Charge for the year	3	26	–	29
Disposals	–	(43)	–	(43)
At 31 January 2020	**3**	**28**	**8**	**39**
Net book value				
At 31 January 2020	**24**	**45**	**–**	**69**
At 31 January 2019	–	–	–	–

13 Trade and other receivables

	2020 £m	2019 £m
Current		
Trade receivables	**143**	142
Deferred consideration	**–**	3
Prepayments	**24**	18
Contract assets	**16**	17
Reinsurers' share of insurance liabilities	**67**	39
Other receivables	**7**	4
	257	223

Trade receivables include £90m (2019: £80m) relating to amounts due from insurance broking customers.

Reinsurers' share of insurance liability comprises £35m (2019: £17m) in relation to the provision for unearned premiums and £32m (2019: £22m) in relation to claims outstanding.

14 Cash and cash equivalents

	2020 £m	2019 £m
Ring-fenced cash at bank and in hand – available	**62**	12
Ring-fenced cash at bank and in hand – restricted	**40**	8
Non ring-fenced cash at bank and in hand – available	**27**	68
Non ring-fenced cash at bank and in hand – restricted	**30**	28
Cash and cash equivalents as presented in consolidated statement of cash flows	**159**	116
Less: presented as assets held for sale	**(10)**	–
Cash and cash equivalents as presented in consolidated statement of financial position	**149**	116

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

Restricted cash is cash which is subject to contractual or regulatory restrictions. The Group has restricted cash balances both inside and outside of the WBS ring-fence. Restricted cash consists of £38m (2019: £36m) held by and on behalf of the Group's insurance businesses which are subject to contractual or regulatory restrictions, which generated £1m (2019: £nil) of other income, and £32m (2019: £nil) held in a separate bank account due to a requirement under the terms of the Group's debt documents. The requirement is to deposit a calculated amount of 'excess cash' at the year end when within an 'accumulation period' (the 12 months before which any borrowings become due). This applies to the Class A3 notes which are due on 31 July 2020 (see note 16). On 23 April 2020, the Group announced that it had drawn down in full its £200m Senior Term Facility ahead of the planned refinancing of the remaining £200m Class A3 Notes (see note 21). Therefore, if not required, the excess cash will be returned to available cash on 31 July 2020.

15 Trade and other payables

	2020 £m	2019 £m
Current		
Trade payables	**112**	88
Other taxes and social security costs	**29**	12
Accruals	**59**	61
Deferred income	**219**	233
Deferred consideration	**1**	2
Provision for unearned premiums in Insurance Underwriting	**46**	26
Other payables	**29**	40
	495	462
Non current		
Deferred consideration	**–**	10

Trade payables include £72m (2019: £63m) 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, £217m (2019: £221m) 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 (AA Cars). During the current year, £2m deferred consideration was paid and the remaining value of the deferred consideration was settled at £1m resulting in a £9m contingent consideration remeasurement gain being recognised in operating profit (see note 3).

Included in deferred income is £12m (2019: £15m) which will be released over a period more than 12 months from the statement of financial position date.

16 Borrowings and loans

	2020 £m	2019 £m
Current		
Borrowings (see note 17)	**200**	–
Non-current		
Borrowings (see note 17)	**2,506**	2,724
	2,706	2,724

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 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.

17 Borrowings

	Expected maturity date	Interest rate	Principal £m	Issue costs £m	Amortised issue costs £m	**Total as at 31 January 2020 £m**	Total as at 31 January 2019 £m
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**	200
Class A5 notes	31 January 2022	2.88%	697	(47)	27	**677**	670
Class A6 notes	31 July 2023	2.75%	250	(4)	2	**248**	247
Class A7 notes	31 July 2024	4.88%	550	(8)	2	**544**	543
Class B2 notes	31 July 2022	5.50%	570	(16)	12	**566**	564
		4.52%	2,767	(77)	45	**2,735**	2,724
Class B2 notes	Repurchased	(5.50%)	(29)	1	(1)	**(29)**	–
		4.51%	**2,738**	**(76)**	**44**	**2,706**	2,724

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

During the period 28 February 2019 to 1 March 2019, the Group completed the purchase of £23m of Class B2 notes in AA Bond Co Limited for cash consideration of £20m, resulting in a £3m gain on settlement of debt accounted for in finance income (see note 6). On 23 December 2019, the Group completed the purchase of a further £6m of Class B2 notes in AA Bond Co Limited for cash consideration of £5m, resulting in a further £1m gain on settlement of debt (see note 6). The Group have recognised this as a reduction in borrowings. This has been presented in a separate line in the above summary table as the asset is held by the Group outside of the WBS, but is linked to the Class B2 notes shown above which are held by the Group within the WBS. The current restrictions of the WBS prevent the Class B2 notes from being purchased by an entity within the WBS and cancelled through settlement.

On 23 December 2019, the Group completed the purchase of £3m of Class A5 notes in AA Bond Co Limited for cash consideration of £3m. These notes were purchased within the WBS by AA Bond Co Limited and were therefore subsequently cancelled.

On 5 February 2020, the Group 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 21 for further detail.

In order to show the Group 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 Trading EBITDA and cash flow criteria are met.

17 Borrowings *(continued)*

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 Group loan notes are listed on the Irish Stock Exchange.

In order to comply with the requirements of the Class A notes, the Group is required to maintain the Class A free cash flow to debt service ratio in excess of 1.35x. The actual Class A free cash flow to debt service ratio as at 31 January 2020 was 3.4x (2019: 2.6x). The Class B2 notes require the Group to maintain the 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).

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 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 Group’s Class A notes at BBB- and the Class B2 notes at B+. On 23 April 2020, as part of the Senior Term Facility drawdown process (see note 21), the Group announced that S&P confirmed the credit rating on the Class A notes at BBB-.

In addition to the Senior Term Facility, the Group has significant further liquidity available from £225m banking facilities, of which £221m remains undrawn at the year end.

18 Provisions

	Property leases £m	Restructuring £m	Duplicate breakdown cover £m	Other £m	Total £m
At 1 February 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
Reclassification	–	–	–	6	6
Utilised during the year	(1)	–	–	–	(1)
Released during the year	(1)	–	–	–	(1)
At 31 January 2020	**3**	**–**	**–**	**8**	**11**
Current	–	–	–	5	5
Non-current	3	–	–	3	6
At 31 January 2020	**3**	**–**	**–**	**8**	**11**
Current	1	–	–	2	3
Non-current	4	–	–	–	4
At 31 January 2019	5	–	–	2	7

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.

Other provisions include £2m (2019: £2m) relating to anticipated compensation costs for poorly handled complaints. During the 2019 financial year, the Group identified that some historic customer complaints were not dealt with in line with industry standards, thereby entitling affected customers to compensation. This compensation is expected to be paid out during the next year. In addition, the Group incurred £2m of incremental cost in relation to this process which has been presented as part of adjusting operating items (see note 4).

The remaining balance of £6m (2019: nil) relates to a reclassification of self-funded insurance liabilities from accruals to provisions, where the Group provides for the cost of certain claims made against it, for example motor vehicle accident damage and employer liability claims.

Litigation – update on Mr Mackenzie's claim

As reported in the prior year financial statements, 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. The majority of Mr Mackenzie's claim arises from his exclusion from a share option scheme which, in any event, lapsed for all participants without any payment in June 2019. However, Mr Mackenzie has now issued an amended claim which includes a new claim for personal injury allegedly suffered as a result of stress arising from his role as CEO and Chairman. The Companies have filed a full defence in relation to Mr Mackenzie's amended claim. Additionally, 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.

19 Pensions

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

	As at 31 January 2020			
	AAUK £m	AAI £m	AAPMP £m	Total £m
Present value of the defined benefit obligation in respect of pension plans	(2,576)	(61)	(44)	(2,681)
Fair value of plan assets	2,472	47	–	2,519
Deficit	**(104)**	**(14)**	**(44)**	**(162)**

	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)**

The decrease in the deficit is primarily due to the performance of plan assets being above expectations, experience arising from the 2019 valuation for AAUK, changes in the demographic assumptions (reflecting the latest outlook for mortality rates and inclusion of the latest experience around retirement behaviour), and Group contributions paid into the schemes. This was partially offset by the changes in financial assumptions over the period (in particular a decrease in the discount rates).

19 Pensions (continued)

	Assets £m	Liabilities £m	Income statement £m	Other comprehensive income £m
Balance at 1 February 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)**	**–**	**–**
Current service cost	–	(23)	(23)	–
Interest on defined benefit scheme assets/(liabilities)	59	(64)	(5)	–
Amounts recognised in the income statement	**59**	**(87)**	**(28)**	**–**
Effect of changes in financial assumptions	–	(452)	–	(452)
Effect of changes in demographic assumptions	–	227	–	227
Effect of experience adjustment	–	52	–	52
Return on plan assets excluding interest income	212	–	–	212
Amounts recognised in the statement of comprehensive income	**212**	**(173)**	**–**	**39**
Foreign exchange (loss)/gain	**(2)**	**2**	**–**	**–**
Contribution from scheme participants	1	(1)	–	–
Benefits paid from scheme assets	(82)	82	–	–
Ongoing employer contributions	19	–	–	–
Deficit reduction employer contributions	26	–	–	–
Movements through cash	**(36)**	**81**	**–**	**–**
Balance at 31 January 2020	**2,519**	**(2,681)**	**–**	**–**

20 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:

	2020 £m	2019 £m
Roadside Assistance	**874**	874
Insurance Services	**240**	240
AA Cars (see note 15)	**25**	25
DriveTech	**31**	31
	1,170	1,170

The Group has performed impairment testing at 31 January 2020 and 31 January 2019. 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 2023, updated to reflect the estimated financial impact of COVID-19, and a 2% growth expectation in the subsequent year. For the purposes of the impairment test, terminal values have been calculated using a 2% growth assumption (2019: 2%). 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 8.9% (2019: 9.9%).

The cash flow projections are forecast using historical trends overlaid with business-led assumptions such as contract wins, sales volumes and prices, together with operational KPIs such as number of personal members, number of business customers, insurance policies in force, renewal rates and average repair times. These allow the business to forecast profits, working capital and capital expenditure requirements.

The value in use calculation used is most sensitive to the assumptions used for growth and 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.

Goodwill was not impaired for any of the above CGUs in either the current or prior financial year.

21 Events after the reporting period

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

On 5 February 2020, the Group 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 £m	Issue costs £m	Amortised issue costs £m	**Total as at 5 February 2020 £m**
Class A2 notes	31 July 2025	6.27%	500	(1)	1	**500**
Class A3 notes	31 July 2020	4.25%	200	(1)	1	**200**
Class A5 notes	31 January 2022	2.88%	372	(25)	14	**361**
Class A6 notes	31 July 2023	2.75%	250	(4)	2	**248**
Class A7 notes	31 July 2024	4.88%	550	(8)	2	**544**
Class A8 notes	31 July 2027	5.50%	325	(3)	–	**322**
Class B2 notes	31 July 2022	5.50%	570	(16)	12	**566**
		4.82%	2,767	(58)	32	**2,741**
Class B2 notes	Repurchased	(5.50%)	(29)	1	(1)	**(29)**
		4.82%	**2,738**	**(57)**	**31**	**2,712**

Renewal of contract with Bank of Ireland

On 31 March 2020 the Group signed an agreement to extend its Financial Services Distribution Agreement with Bank of Ireland UK by three years. As part of the Agreement, the partnership now includes AA branded car finance products to sit alongside the savings and loans products.

Drawing of Senior Term Facility

On 23 April 2020, consistent with the Group's proactive approach to debt management, the Group announced that it had drawn down in full its £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-.

21 Events after the reporting period *(continued)*

AAUK pension scheme

In February 2020, the actuarial triennial review for the AAUK pension scheme was completed as at 31 March 2019. This resulted in a significant reduction to the technical provisions deficit of 64% from £366m as at 31 March 2016 to £131m. Under the previous 2016 valuation, the recovery plan extended through to 2038 in respect of the Asset-Backed Funding element and to 2026 in respect of the Additional Funding element. A new recovery plan has now been put in place and agreed with the trustee which assumes that the scheme's technical deficit will be fully repaid in July 2025, which is 1 year earlier than previously planned in terms of the Additional Funding element and 13 years earlier in terms of the Asset-Backed Funding element. To do this, the Group has committed to paying an additional (above the Asset-Backed Funding scheme payments) £10m per annum from April 2020 to March 2021, £11m per annum from April 2021 to March 2022 and £12m per annum from April 2022 to July 2025. From 1 February 2020, the trustee will also meet its own costs of running the scheme. As a result, annual cash costs for the Group are expected to reduce by around £6m.

Consultation on the closure of the CARE section of the AAUK pension scheme commenced on 18 January 2020 through employee representatives and concluded on 18 March 2020. The Group had proposed that, from 1 April 2020, all future pension accrual would be on a defined contribution basis. Following a review of the feedback received during consultation, the Group has confirmed that the proposals will be implemented on a modified basis and future pension accrual will be on a defined contribution basis for all UK employees with transitional arrangements which will cost c.£11m over three years starting from 1 April 2020.

The agreed transitional arrangements provide a valuable enhanced Group pension contribution over a three year period commencing 1 April 2020 available to all members who make a contribution of at least 4% of pensionable salary per year. Further enhancements to the Group pension contribution are also available during the transitional period to members willing to make higher contributions.

On an ongoing basis, the regular (non-transitional) pension accrual costs for the affected members are expected to be c.£4m per year lower than the current costs in the AAUK pension scheme as a result of the closure.

In addition, without scheme closure the Group would have incurred increased pension accrual cash costs in relation to the CARE section of a further c.£5m per annum from 1 April 2020 (under the triennial valuation agreement). Closure also curtails the ongoing build-up of defined benefit risk for the Group.

Following agreement of the 31 March 2019 triennial valuation in February 2020, as well as conclusion of the consultation on closure of the AAUK scheme to future accrual, the Group has a much clearer visibility over pension costs for at least the next three years (where finalisation of the 31 March 2022 triennial valuation would reasonably be expected). The ongoing volatility from accrual costs has been removed but future volatility of deficit costs does remain. The immediate impact of COVID-19 on the global financial markets means higher fluctuation of the funding level in the AAUK scheme, albeit partially mitigated by the de-risked investment strategy and high levels of hedging. Should these conditions persist at the time of the 2022 triennial valuation then there is a risk that the contributions required from the Group could increase.