



AA INTERMEDIATE CO LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JANUARY 2020

Company registration number: 05148845

Strategic Report

Making Britain's driving life simpler and smarter

In FY 20 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 and Service, Maintenance and Repair (SMR), which will differentiate the AA and enable us to target a broader base of UK drivers. Supported by an improved workforce and culture, we are 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. We are on the way to realising our vision of making Britain's driving life simpler and smarter.

Positive operational momentum

Roadside

We continue to deliver best-in-class customer service in our Roadside 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 3,215k 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 9,048k 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 the AA plc group's 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 the AA plc 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.

Strategic Report (continued)

Insurance (continued)

In late FY20, in line with our strategic priority of broadening the AA plc group's 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. 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-.

Strategic Report (continued)

Proactive pension liability and debt management (continued)

The Directors continue to believe that, given the usual liquidity of the sterling bond markets, the investment grade rating of the Class A notes, the recent oversubscription of the new Class A8 note issue in February 2020 and the recurring cash flows of the business, there is a reasonable prospect that we will be able to refinance. In addition, the Directors would expect to refinance these borrowings in advance of their respective due dates as the Group has access to a number of refinancing opportunities including bond issues, bank borrowings and repayments from existing cash resources. However, the Directors do believe that these refinancings will be at a higher interest rate than the current profile and will, as with previous refinancings, require cash resources to be allocated to the associated one-off costs of enabling these transactions. 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 we generated £85m of free cash flow (pre-dividends and bond buyback) compared with £4m in the prior year. We also delivered capital expenditure as expected, which fell to £65m, a reduction of 19% or £15m.

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 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.

Financial results

Revenue (see note 2) grew 0.7% to £967m driven principally by the strong performance of Insurance.

Trading EBITDA (see note 2) was £343m. The 1.8% increase compared to last year was predominately in our Roadside business where we saw a £3m benefit from the transition to IFRS 16 (see note 1.3(w)) and 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. Group Trading EBITDA margins remained steady at 35% (2019: 35%).

Operating profit before adjusting operating items increased by 0.8% to £259m principally due to the increase in Trading EBITDA, the £8m increase in the contingent consideration remeasurement gain (see note 20), and the £1m reduction in the pension service charge adjustment. These were offset somewhat by the anticipated increase of £13m in amortisation and depreciation reflecting the historic and ongoing investments in IT.

Strategic Report (continued)

Financial results (continued)

Adjusting operating items were significantly lower at £4m cost (2019: £40m cost). In the current year, adjusting operating items comprised £6m related to strategic review projects, £2m related to conduct and regulatory costs (see note 23) 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, adjusting operating items included pension past service costs of £22m, impairment of software of £5m, £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.

Net cash flows from operating activities before taxation increased from £266m to £327m. Capex reduced from £80m to £65m whilst lease capital payments net of proceeds from sale of fixed assets increased slightly from £22m to £25m. Free cash flow was up significantly resulting in an £85m inflow (2019: inflow of £4m).

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 as 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.

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 (Service, Maintenance and Repair) 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.

Strategic Report (continued)

Strategy update (continued)

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.

Strategic Report (continued)

Strategy update (continued)

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 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 and realisation of greater efficiency through better internal systems, we are confident that our Insurance business can continue to deliver strong profitable growth.

2 Growth in portfolio of non-members and younger customers

What we have achieved

The strong growth of the non-member motor book, due to the launch of the non-members insurance scheme in the AA plc group's underwriter, and improvements in our customer journeys are 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.

Strategic Report (continued)

Strategy update (continued)

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 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

Strategic Report (continued)

Strategy update (continued)

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.

Strategic Report (continued)

s172(1) statement

Directors' duties: s. 172 statement

Section 172 of the Companies Act 2006 (Section 172) requires a director of a company to act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. The Board's aim is to make sure that its decisions follow a consistent process, by considering the Company's strategic priorities while balancing the interests of various stakeholders when making decisions.

The Board has considered the need to act fairly between stakeholders and continue to maintain high standards of business conduct. Nevertheless, the Board acknowledges that stakeholder interests may conflict with each other and that not every decision can result in a positive outcome for all stakeholders.

The Company is part of the AA plc group, the ultimate parent of which is AA plc. Decisions, policies and procedures that may affect stakeholders are implemented at an AA plc group level and the Board oversees the application of these to the Company. The Board recognises that the Company's stakeholders include those that interact with the Company directly, in addition to those with indirect relationships in the context of the wider AA plc group.

Key stakeholders

The Board keeps the Company's key stakeholders under review to ensure due consideration is given to all relevant stakeholders in the context of principal decisions. During the year, the following key stakeholders were identified: employees, investors, customers, suppliers, and regulators.

Board considerations

The Board has considered how the Company currently engages with each of the key stakeholders listed above, as well as its future engagement strategy. This will ensure that due consideration is given to stakeholder views and interests, to the extent that they are relevant to any particular decision.

More information about how the Board engages with each of the stakeholders above, within the context of the wider AA plc group, can be found in AA plc's Annual Report and Accounts 2020.

Summary of business relationships

This s.172 statement also satisfies the requirement in Part 4, Schedule 7 of the Large and Medium-sized Companies Regulations 2008 for certain large companies to disclose, either in their Directors' Report or in their Strategic Report, a statement of the company's engagement with suppliers, customers and other relevant parties.

Statement of employee engagement

The Company is part of the AA plc group, the ultimate parent of which is AA plc. Decisions, policies and procedures that affect employees are implemented at a Group level and the Board oversees the application of these to the Company.

Further information about the Group's employee engagement strategy can be found on pages 8 and 29.

Strategic Report (continued)

Pensions

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.

Financing arrangements and refinancing

As part of our ongoing commitment to proactive debt management, we successfully completed the buyback of £3m of A Notes for £3m 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.

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

Segmental reporting

In line with our strategy, we report our segmental performance across two core segments, Roadside and Insurance. Roadside is made up of our Business-to-consumer (B2C), Business-to-business (B2B) and Roadside Other divisions.

Head office costs have been apportioned to our two reporting segments and are predominately allocated on a percentage of revenue basis.

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

Strategic Report (continued)

Business performance review

The directors present the consolidated financial statements of AA Intermediate Co Limited (“the Company”) and its subsidiary undertakings (together “the Group”) for the year ended 31 January 2020. The Company is an Obligor and a parent company of each of the other Obligors that provide security and guarantees under the financing arrangements entered into by the AA on 2 July 2013. The Company’s immediate parent is AA Mid Co Limited. There is no material difference in the financial conditions and results of operations between the AA Intermediate Co Limited group and the AA Mid Co Limited group.

ROADSIDE

Roadside includes Business-to-consumer (B2C), Business-to-business (B2B) and Roadside Other.

Roadside performance is driven by our personal membership base and supported by our business customer (B2B) base, underpinning the scale of our operations which is critical to our success.

Each provide approximately half the jobs for the 2,700-strong patrol force.

We have 2,235 driving instructors in our franchised driving schools, the AA and BSM, providing driving lessons for approximately 80,000 learners each year. DriveTech is the market leader in driver education including Driver Awareness courses which are offered by police forces.

| | 2020 | 2019 |
|--|-------|-------|
| Revenue (£m) | 841 | 841 |
| Trading EBITDA (£m) | 290 | 285 |
| Trading EBITDA margin (%) | 34.5 | 33.9 |
| Personal Members excluding free Memberships (000s) | 3,215 | 3,207 |
| Average income per personal Members excluding free Memberships (£) | 165 | 162 |
| Business customers (000s) | 9,048 | 9,793 |
| Average income per Business customer (£) | 22 | 21 |
| Number of breakdowns ('000s) | 3,423 | 3,730 |
| Driving instructors | 2,235 | 2,412 |

Revenue remained flat 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 increased by 1.8% to £290m reflecting the additional £3m benefit of the transition to IFRS 16 (see note 1.3(w)) and the solid performance of Roadside. Trading EBITDA margin increased from 33.9% to 34.5% reflecting the EBITDA benefit.

Strategic Report (continued)

Business performance review (continued)

Roadside (continued)

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 3,215k (2019: 3,207k). 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

Average income per business customer was up 5% to £22 and business customers fell to 9,048k (2019: 9,793k), 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.

Strategic Report (continued)

Business performance review (continued)

Roadside (continued)

Operational review

We continue to deliver best-in-class customer service delivery in our Roadside 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 3,423k (2019: 3,730k), 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.

Roadside Other

Roadside Other revenue includes our Driving Schools and DriveTech businesses. DriveTech revenue was flat at £42m (2019: £42m) while Driving Schools revenue declined by 4.8% to £20m (2019: £21m). 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 these businesses 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.

Strategic Report (continued)

Business performance review (continued)

INSURANCE

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

Growth was driven by our insurance broker which has continued to focus on the core products of motor and home insurance and has seen both books continue to grow.

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

| | 2020 | 2019 |
|---|-------|-------|
| Revenue (£m) | 126 | 119 |
| Trading EBITDA (£m) | 53 | 52 |
| Trading EBITDA margin (%) | 42.1 | 43.7 |
| Total policy numbers in force ¹ (000s) | 1,713 | 1,561 |
| Average income per policy (Motor and Home) (£) | 68 | 69 |
| Total Motor policies (000s) | 869 | 731 |
| Total Home policies (000s) | 844 | 830 |
| Financial Services products ('000s) | 90 | 112 |

¹ Excludes Financial Services

Revenue increased 5.9% to £126m driven by growth in our insurance broker volumes. Trading EBITDA increased 1.9% to £53m. Trading EBITDA margin decreased from 43.7% to 42.1% due to the ongoing investment in marketing needed to position the business for long-term growth.

Insurance Services

Revenue increased by 5.9% 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 the AA plc group 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.

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.

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.

Strategic Report (continued)

Business performance review (continued)

Insurance Services (continued)

The AA plc group took important steps in enhancing claims and accident management capabilities during the year by bringing motor claims first notification of loss processes fully in house. This, 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.

Strategic Report (continued)

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 AA plc Board. Each risk register 'owner' is required to formally self-certify the completeness and correctness of their risk register(s) on a quarterly basis 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 AA plc 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.

Strategic Report (continued)

Risk Management (continued)

Risk appetite

The risk appetite for the AA is documented and presented to the AA plc Risk Committee for review and debate and presented to the AA plc 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

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

| Principal risk: | Description | Impact, likelihood and trend |
|--|--|--|
| Debt leverage | The Company is unable to repay or refinance its debt at an acceptable price. | Following the refinancing on 5 February 2020 (see note 22), and the drawdown of the STF (to enable the repayment of the A3 notes), we have £0.9bn of debt to refinance by 2022. |
| We are unable to manage our debt | 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. | 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. |
| Risk trend ^ | Change in the year During the year we completed the buyback of £3m of Class A notes for £3m of cash (see note 22). | 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. |
| Link to strategy: Financial and other | | Modelling indicates that, even at higher interest rates, the business remains cash generative and able to meet its financing commitments. |
| Primary KPIs | | |
| <ul style="list-style-type: none"> • Leverage • Interest cover • Trading EBITDA • Free cash flow | | |

Strategic Report (continued)

Risk Management (continued)

| | | |
|---|---|---|
| <p>Principal risk: Regulatory and legal environment</p> <p>A changing regulatory environment may adversely affect our activities</p> <p>Material litigation against the AA</p> <p>Risk trend ^</p> <p>Link to strategy: Financial and other</p> <p>Primary KPIs</p> <ul style="list-style-type: none"> • FCA consultations and policy statements • Level of FCA, PRA and ICO supervisory interaction | <p>Description</p> <p>The changing regulatory environment could cause currently compliant services to become non-compliant, with material implications to customer offerings, pricing and profitability.</p> <p>Failure to comply with regulatory obligations could result in claims, fines and reputational damage.</p> <p>Changes in regulatory rules or guidance, legislation or taxation could impact the business model.</p> <p>Mitigation</p> <p>The AA has no appetite for deliberately breaching any regulatory or licensing requirements.</p> <p>Close engagement with regulatory objectives is coupled with good governance and strong monitoring processes to ensure that we continue to focus on delivering products and services that result in good customer outcomes.</p> <p>Our regulated Boards continue to actively review pricing practices in line with guidance from the FCA and in light of current market practice.</p> <p>Regular dialogue is maintained with the FCA and other regulatory bodies.</p> <p>Our Regulatory and Legal Change Committee tracks forthcoming changes and advises the business on changes required.</p> <p>Products are reviewed regularly to reaffirm they are fit for purpose.</p> <p>The AA has in house Legal and Compliance teams and also takes external legal advice, where deemed necessary.</p> | <p>Change in the year</p> <p>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.</p> <p>Impact, likelihood and trend</p> <p>As in previous years, the regulatory environment continues to be dynamic with a continuing and demanding programme of regulatory initiatives. These additional requirements may drive further commoditisation into the market at the expense of superior service differentiation.</p> <p>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.</p> <p>Regulatory and legal issues remain a key focus of the Board and of the management team.</p> |
| <p>Principal risk: Outstanding service</p> <p>We are unable to maintain an outstanding service</p> <p>Risk trend v</p> <p>Link to strategy: Innovate and grow Roadside</p> <p>Primary KPIs</p> <ul style="list-style-type: none"> • Breakdowns attended • Response times • Percentage of completed repairs at the roadside • Customer complaints | <p>Description</p> <p>The AA's brand and its continued success, and in particular the loyalty of its customers, relies on delivering outstanding service that is superior to the rest of the market. Inadequate investment in technology, systems, people and processes would place this objective at increasing risk.</p> <p>Mitigation</p> <p>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.</p> | <p>Change in the year</p> <p>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.</p> <p>Impact, likelihood and trend</p> <p>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.</p> <p>Inclement weather will always have an impact on demand and we continue to learn lessons from these</p> |

Strategic Report (continued)

Risk Management (continued)

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| | 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. | 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. |
| <p>Principal risk: Roadside market share and margin</p> <p>We are unable to maintain our market share and an ability to command a price premium on our roadside services</p> <p>Risk trend <></p> <p>Link to strategy: Innovate and grow Roadside</p> <p>Primary KPIs</p> <ul style="list-style-type: none"> • Paid personal members • Business customers • Average income per member • Average income per business customer | <p>Description</p> <p>Competitors that provide roadside services at a lower price or have a different business model, together with changes in car technology, threaten our market share. If we charge a price premium that is above 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.</p> <p>Mitigation</p> <p>We are continuing to improve our roadside membership proposition by strengthening our roadside product offerings and engaging more members in additional benefits.</p> <p>We have improved our communications with both new and existing members, engaging members in their existing services and benefits to drive loyalty.</p> <p>Our pricing team has significant expertise to monitor market pricing levels and ensure that we are treating both new and loyal customers fairly while remaining competitive.</p> | <p>Change in the year</p> <p>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.</p> <p>Our Smart Breakdown product continues to be deployed through a range of channels, and the membership benefits proposition continues to be enriched.</p> <p>Impact, likelihood and trend</p> <p>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.</p> <p>The business is focused on realising a sustainably growing membership and recognises the need for a more distinctive and differentiated offering to mitigate competitive pressures.</p> |
| <p>Principal risk: Insurance broking</p> <p>We are unable to achieve desired margin, remain competitive and achieve our growth and profitability objectives</p> <p>Risk trend <></p> <p>Link to strategy: Insurance growth</p> <p>Primary KPIs</p> <ul style="list-style-type: none"> • Insurance policies • Average income per motor and home policy | <p>Description</p> <p>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.</p> <p>Mitigation</p> <p>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.</p> | <p>Change in the year</p> <p>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. 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.</p> <p>Impact, likelihood and trend</p> <p>The competitive threat from price comparison sites remains unchanged. However, the success of our panel model in the broker and the adoption of insurer hosted pricing enables us to better respond to this threat. Through the AA plc group's in-house</p> |

Strategic Report (continued)

Risk Management (continued)

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| | | <p>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.</p> |
| <p>Principal risk: Change management & IT transformation</p> <p>We are unable to successfully complete essential business transformation</p> <p>Risk trend <-></p> <p>Link to strategy: Operational and service excellence</p> <p>Primary KPIs</p> <ul style="list-style-type: none"> • Trading EBITDA • Free cash flow | <p>Description</p> <p>We must continue to transform the AA to achieve the required efficient customer-centric services and to develop the business.</p> <p>Although much has been achieved in 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.</p> <p>Mitigation</p> <p>There is an ongoing delivery capability and technology improvement programme in place with progress tracked at regular Management Business Reviews.</p> <p>A rigorous approach is taken in implementing changes to achieve satisfactory control, with ongoing monitoring and reporting. We have a talent management model in place, where skills gaps are identified and development and/or recruitment initiatives are actioned.</p> | <p>Change in the year</p> <p>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.</p> <p>Impact, likelihood and trend</p> <p>Strong management capability and oversight have been put in place to continue to better manage this risk.</p> |
| <p>Principal risk: Information security/Cyber crime/Data breach</p> <p>We are unable to protect ourselves from a significant data breach or cyber security incident</p> <p>Risk trend <-></p> <p>Link to strategy: Financial and other</p> <p>Primary KPIs</p> <ul style="list-style-type: none"> • Data breach incidents | <p>Description</p> <p>The integrity of critical information is corrupted, resulting in it not being available where and when it is needed, or the confidentiality of commercially sensitive, private or customer information is compromised by inappropriate disclosure or a serious data breach occurs.</p> <p>Mitigation</p> <p>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.</p> | <p>Change in the year</p> <p>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.</p> <p>Improving awareness and enforcement of security policy is driving cultural change, and this must be maintained.</p> <p>Impact, likelihood and trend</p> <p>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.</p> |

Strategic Report (continued)

Risk Management (continued)

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| | <p>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.</p> | <p>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.</p> <p>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.</p> |
| <p>Principal risk: Health and safety</p> <p>We are unable to maintain the safety of our workforce and customers</p> <p>Risk trend <-></p> <p>Link to strategy: Operational and service excellence</p> <p>Primary KPIs</p> <ul style="list-style-type: none"> • Lost time injury rate • Reportable incidents (RIDDOR) | <p>Description</p> <p>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.</p> <p>Mitigation</p> <p>Close engagement with employees and their representatives is coupled with good governance and management accountability.</p> <p>We have a robust and externally audited integrated health, safety and environmental (HS&E) management system as well as local arrangements where appropriate.</p> <p>We regularly review all our HS&E risks and controls to ensure that they remain fit for purpose.</p> <p>We have in place safety improvement programmes which are SMART and drive the continual improvements we aspire to.</p> <p>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.</p> <p>We have a dedicated team of health and safety advisers who are all members of the Institution of Occupational Safety and Health. We deploy best practice, both that seen internally as well as externally.</p> <p>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.</p> | <p>Change in the year</p> <p>The AA continues to strive to maintain a safe environment for employees and members.</p> <p>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.</p> <p>Impact, likelihood and trend</p> <p>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.</p> <p>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.</p> <p>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.</p> |

Strategic Report (continued)

Risk Management (continued)

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|---|---|--|
| <p>Principal risk: Pensions</p> <p>We are unable to meet our pension liabilities</p> <p>Risk trend ▾</p> <p>Link to strategy: Financial and other</p> | <p>Description</p> <p>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.</p> <p>Mitigation</p> <p>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.</p> | <p>Change in the year</p> <p>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.</p> <p>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.</p> <p>Impact, likelihood and trend</p> <p>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.</p> |
|---|---|--|

Further information on the financial risks and management objectives and policies, including market, credit and liquidity risks, is included in note 29 of the financial statements.

Strategic Report (continued)

Management discussion and analysis

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

Management discussion and analysis – Consolidated income statement for the year ended 31 January 2020

Revenue: Group revenue increased by £7m or 0.7% from £960m in the year ended 31 January 2019 to £967m in the year ended 31 January 2020. The increase in revenue was driven principally by the strong performance of Insurance.

Roadside: Roadside Revenue was flat in the year ended 31 January 2020 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 Services: Insurance Services revenue increased by £7m or 5.9% from £119m for the year ended 31 January 2019 to £126m in the year ended 31 January 2020. This was due to higher volumes in the insurance broker.

Cost of sales: Cost of sales decreased by £10m or 2.6% from £390m in the year ended 31 January 2019 to £380m in the year ended 31 January 2020 reflecting the lower workload in the current year and therefore reduced third-party garaging costs as well the part disposal of AA Media during the year.

Administrative and marketing expenses: Administrative and marketing expenses decreased by £21m or 5.9% from £353m in the year ended 31 January 2019 to £332m in the year ended 31 January 2020. The decrease in administrative and marketing expenses was primarily driven by the adjusting pension past service cost of £22m in the prior year relating to the Guaranteed Minimum Pension (GMP) equalisation.

Operating profit: Operating profit increased by £38m or 17.5% from £217m in the year ended 31 January 2019 to £255m in the year ended 31 January 2020. The increase in operating profit was primarily driven by the decrease in administrative and marketing expenses described above as well as the £6m increase in Trading EBITDA, £8m increase in the contingent consideration remeasurement gain (see note 20) and a £9m reduction in other adjusting operating item costs (see note 5) offset by an increase of £13m in amortisation and depreciation reflecting the historic and ongoing investments in IT.

Finance costs: Finance costs reduced from £167m in the year ended 31 January 2019 to £155m in the year ended 31 January 2020 largely due to the adjusting finance costs of £13m in the prior year related to the prior year refinancing.

Finance income: Finance income increased by £1m from £nil in the year ended 31 January 2019 to £1m in the year ended 31 January 2020.

Taxation: Taxation increased by £9m from £10m in the year ended 31 January 2019 to £19m in the year ended 31 January 2020. The increase in tax expense largely reflects the higher profitability. The tax charge consisted of a current tax charge of £15m (2019: £8m) and a deferred tax charge of £4m (2019: £2m). The effective tax rate was lower at 18.8% (2019: 20.0%), more in line with the UK statutory tax rate.

Strategic Report (continued)

Management discussion and analysis (continued)

Trading EBITDA

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

Trading EBITDA increased by £6m or 1.8% from £337m in the year ended 31 January 2019 to £343m in the year ended 31 January 2020. The increase in Trading EBITDA was primarily driven by Roadside as outlined below.

Roadside: Trading EBITDA increased by £5m from £285m in the year ended 31 January 2019 to £290m in the year ended 31 January 2020 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 and the £3m benefit from the transition to IFRS 16.

Insurance: Insurance Trading EBITDA was up £1m from £52m in the year ended 31 January 2019 to £53m in the year ended 31 January 2020, a solid performance reflecting the initial benefit of increased acquisition marketing spend by the broker over the last two years.

Management discussion and analysis – Consolidated statement of cash flows

Net cash flow from operating activities before tax: £266m in the year ended 31 January 2019 compared to £327m in the year ended 31 January 2020. The increase was predominately due to the increase in profit before tax and positive working capital and provisions movements compared to negative working capital and provisions movements in the prior year. This improvement was principally due three main movements: a cash receipt from HMRC in settlement of historic partial exemption claims, a reclassification of provisions in the current year compared to utilisation of provisions in the prior year and timing differences in payments and receipts.

Tax paid: Cash outflow from tax paid was £15m in the year ended 31 January 2019 and £10m in the year ended 31 January 2020. The decrease reflects the higher profitability in FY18 than in FY19, for which payments on account continued into FY20.

Investing activities: Cash flows used in investing activities were an outflow of £92m in the year ended 31 January 2019 compared to an outflow of £73m in the year ended 31 January 2020. The decrease was due to lower capex spend in the year and lower spend on acquisitions spending £8m on the acquisition of Prestige in the current year (see note 12) compared to £12m for the acquisition of Used Car Sites Limited in the prior year.

Refinancing transactions: Cash outflow from refinancing transactions was £34m in the year ended 31 January 2019 compared to £3m in the year ended 31 January 2020. In the current year, the group successfully completed the buyback of £3m of A Notes for £3m cash. In the prior year, the Group issued £550m of Class A7 notes incurring £2m of premium and £6m of new issue fees. From the proceeds of the Class A7 notes, the Group repaid £300m of Class A3 notes incurring a penalty of £15m and the £250m Senior Term Facility (STF), with issue costs associated with the Class A3 notes and the STF totalling £3m. The Group also entered into a new undrawn £200m forward starting STF and a new working capital facility. The interest rate swaps held to hedge the previous STF were also settled for £7m.

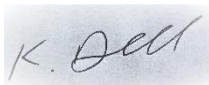
Interest paid on borrowings: Cash outflow from the interest paid on borrowings was £129m in the year ended 31 January 2019 and was broadly flat at £130m in the year ended 31 January 2020.

Strategic Report (continued)

Management discussion and analysis (continued)

Payment of lease capital and interest net of proceeds from sale of fixed assets: Cash outflow from the payment of lease capital and interest net of proceeds from sale of fixed assets was £26m in the year ended 31 January 2019 compared to £29m in the year ended 31 January 2020. The increase in cash outflows from payment of lease capital and interest was primarily driven by the timing of vehicle lease disposals.

On behalf of the Board



K Dangerfield
Director
25 JUNE 2020

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

Directors' report

The Directors present their report and audited consolidated financial statements of AA Intermediate Co Limited and its subsidiary undertakings for the year ended 31 January 2020.

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

Martin Clarke, Chief Financial Officer (Resigned on 29 April 2019)
Gillian Pritchard, Director (Resigned 1 August 2019)
Mark Strickland, Director (Resigned 6 January 2020)
Marianne Neville, Director (Appointed 1 August 2019)
Kevin Dangerfield, Director (Appointed 6 January 2020)

Nadia Hoosen, Company Secretary

AA Intermediate Co Limited is a private company limited by shares, registered and domiciled in the UK, whose registered address is Fanum House, Basing View, Basingstoke, Hampshire, RG21 4EA.

Directors' indemnities

The Company maintains appropriate Directors' and officers' liability insurance cover. The Company has also granted indemnities to each of its Directors and the Company Secretary to the extent permitted by law. Qualifying third-party indemnity provisions (as defined by section 234 of the Act) were in force during the year ended 31 January 2020 and remain in force, in relation to certain losses and liabilities which the Directors or Company Secretary may incur to third parties in the course of acting as Directors, Company Secretary or employees of the Group.

Corporate responsibility

This year we have decided to use the more widely recognised categories of environmental, social and governance (ESG) in our reporting. This means that what we publish will be as understandable and comparable as possible, and help us better explain what we're doing to ensure the AA is fit for the future.

Environment

As a market leader, our remit extends beyond the actions we take to reduce our carbon footprint. In 2019, these have included the purchasing of 100% renewable electricity for our sites, and further development of our 'remote fix' strategy to reduce the fuel consumption of our fleet. For the second year running, we've achieved a sector-leading rating in the Carbon Disclosure Project (CDP) environmental assessment. We seek to influence Government, decision-makers and the driving public on steps that can be taken to mitigate the climate crisis – for example, this year Edmund King (AA President) was an adviser to Climate Assembly UK. In addition, we often poll our customers on issues such as accelerating the rollout of electric vehicles, and ensure that the results are communicated to Government and other relevant stakeholders.

This year, we led calls for scrappage schemes to give added impetus to the transition from diesel to electric vehicles, and campaigned for tax policies that incentivise the switch to zero-emission vehicles. We have also worked with the Environment Agency to promote a joint campaign warning of the dangers of driving through flood water.

Directors' report (continued)

Corporate responsibility (continued)

Social

With over 10 million customers in the UK, we take our wider social responsibilities very seriously. Ensuring that we operate safely and in a manner that protects our customers, colleagues and the public has always been our number one priority. This year, we have led a campaign for significant improvement in safety standards on smart motorways, where the hard shoulder is used as a running lane and there aren't enough emergency refuge areas. We pushed for changes in the Highway Code, and gave evidence to the All-Party Roadside Rescue and Recovery Group to help protect roadside workers via the 'slow down and move over' campaign. We instigated a BBC Panorama programme on the subject and held numerous meetings with ministers and officials. In March, our intensive campaigning paid off, with the Transport Secretary agreeing to all our demands including doubling the number of emergency refuge areas.

Our broader social remit also means working with suppliers who share our values and supporting local charities around our UK offices. This year, working alongside the University of Bristol, we have developed, piloted and promoted a successful scheme that helps teenage care-leavers learn to drive, which improves both their job prospects and self-esteem. We have helped Barnardo's and several local authority charities to take this scheme forward in communities where they work.

We recently refreshed our diversity and inclusion strategy, targeting six key communities to fully embrace the diversity of our employees and enable the AA to be an even more inclusive place to work. These communities include those with visible and invisible disabilities, gender balance, age, carers, those from our BAME communities and vocational backgrounds, and our LGBT employees. Each of these communities is led by a senior executive sponsor to raise awareness of the diverse nature of our workforce and the communities we serve.

Governance

Good governance covers everything from how we listen to our customers and people, to the way we run our company. To ensure that best practice is in place across the AA, we recently launched a new code of conduct, titled What Drives Us. We also fully embraced SMCR. We offer training in areas such as anti-bribery and corruption, whistleblowing, information security, identifying and acting upon customer vulnerability and our GDPR responsibilities.

We listen to our customers. Our AA Populus Poll is the biggest dedicated motoring panel in Europe, and affords us a view on public policy from approximately 20,000 drivers each month which helps to mould our policy and government policy. On the commercial side, our 'Passenger Seat' panel of 17,000 customers, helps us to develop products and services which reflect the needs of drivers.

Our commitment to a high performance culture and the highest standards of conduct

In 2019, we launched our new Code of Conduct, – What Drives Us to make it clear how we should all behave, and to clarify our focus areas:

- Our customers come first. Always.
- We stay safe and look out for each other and the environment.
- We keep information safe and use it responsibly.
- We value each other and celebrate success.
- We work as a team and play by the rules.
- We are ethical in all we do.
- We have honest conversations and we speak up.

Directors' report (continued)

Corporate responsibility (continued)

SMCR preparedness

SMCR involves improving role clarity, accountability and conduct, all of which we have embraced – new processes have been fully designed and tested. Our senior managers have received the training and support they need to fully understand their responsibilities and all of our employees have received updated conduct rules training, alongside the launch of the AA Code of Conduct – which will be further embedded into ways of working in 2020.

Conduct and competence

We've created a new Performance and Capability team, bringing together training and competence (T&C) Performance Development, SMCR and conduct under one umbrella. This ensures that our processes for managing our people's performance, capability and conduct are aligned and consistent across all business areas – making it easier for our managers to support and develop their people.

By focusing on a cycle of continuous development, we will develop a high performing culture where customer experience, regulatory compliance and personal development all support the delivery of good customer outcomes.

Anti-corruption and anti-bribery

We take our responsibility to do business with integrity very seriously. Accordingly, we have an Anti-Bribery and Allowable Gifts, Hospitality and Donations Policy and mandatory e-learning for all employees.

Anti-bribery risk is rated and held on every appropriate departmental risk register with the appropriate controls, and our Financial Crime Policy is regularly reviewed. This policy reflects the AA values, our reputation for financial probity, professionalism and integrity, and recognises that the Group has a duty to protect its customers.

Our Whistleblowing Policy encourages employees to raise concerns confidentially, so that an investigation can take place in an independent, timely and effective manner. During the year, a number of cases were escalated for review by the Executive Risk and Compliance Committee in accordance with that policy.

The Company Secretary holds registers of Directors' interests and external appointments, which include situational and transactional conflicts of interest. We are pleased to report that we have received no enforcement action, fines, penalties or settlements in relation to corruption or bribery

Our commitment to our people

Engaged and valued colleagues are much more likely to deliver the service our customers deserve, and so naturally we want the AA to be a fantastic place to work. That's why we offer interesting and challenging opportunities, excellent career progression, development in every role and a collaborative, inclusive and values-based culture.

Attracting and retaining talent through development, engagement and wellbeing

Attracting talent to our business

This year we attracted over 34,568 job applications and welcomed 1,420 people on board.

As signatories of the Military Covenant, we have for many years supported both reservists and redeployment of armed services personnel into civilian roles. We continue to promote job opportunities through military events and the Career Transition Partnership (the MoD's official provider of Armed Forces Resettlement) and Easy Re-Settlement Magazine.

Directors' report (continued)

Corporate responsibility (continued)

Attracting women from STEM backgrounds is particularly important to us, so we attend recruitment events aimed at this specific demographic. Meanwhile, our 'early careers' programme involves holding talks with schoolchildren about the AA that also address the 'men only' stereotype. Women now make up 40% of our new patrol apprentices.

Developing our people

This year, we have invested in a learning management system which combines mandatory and optional lessons, and will help to instil a learning culture within the AA. This single platform offers all of our people easy access to a broad range of development options.

We now employ over 200 apprentices on courses that range from Customer Service level two to MBA level seven. This year, our apprenticeship programme was ranked in the top 20 on the RateMyApprenticeship.co.uk Top 100 Employers list, and won the West Midlands regional award.

During 2019, we continued training all of our first-line managers, with many of them working towards Institute of Leadership Management qualifications. In 2020, we will expand our leadership development across all levels.

In September 2020, we will launch a 24-month rotational graduate leadership programme, with the aim of creating a sustainable pipeline of high-potential talent across our business.

We continue to develop essential online learning for all our employees in the following areas:

- Competition Law
- Conduct Rules
- Conflict of Interest
- Equality and Diversity
- Financial Crime & Anti-Bribery
- GDPR
- Health, Safety & Environment Awareness
- Information Security
- Treating Customers Fairly and Conduct Risk
- Vulnerable Customers
- Whistleblowing

This year, we have also developed a Career Pathways programme, designed to raise awareness of career opportunities across the business. Lateral moves across a range of diverse roles enable our people to gain experience and broaden their knowledge.

Engagement

For two years, we have conducted our colleague cultural index survey, Our Voice. This year, we were pleased to see an improvement in every area.

Highlights include:

- I strive to improve the way I work (+4.6).
- My manager is a role model for team-work and mutual support (+5.0).
- I am proud to work in the AA (+6.1).
- People I depend upon understand how they must treat & deliver to our customers (+9.1).

Directors' report (continued)

Corporate responsibility (continued)

Improving Group-wide communication is also a priority. We use online channels in combination with regular face-to-face sessions at every location, including interactive roadshows so that our people are able to hear about progress, better understand our strategy, ask questions and share ideas. Many valuable insights have been gained from such exercises.

We continue to work closely with our recognised union, the Independent Democratic Union (IDU), as well as our Management Forum (an elected group for management-level employees), to ensure that our peoples' views are heard. This year, we expanded the Forum's role in shaping some of our strategic plans and major decisions. Meetings are held with the IDU each quarter to discuss business strategy, financial performance and employee-related matters.

Rewarding and recognising our people

We thank and recognise our people throughout the year via our Extra Mile programme, while we celebrate their dedication and hard work at the annual AA Awards. In 2019, we received over 400 nominations and several thousand votes.

Promoting health and wellbeing

Of course, we support our people with occupational health issues, but we also offer help with other serious health matters that arise. Our occupational health provider offers support on medical matters as needed, and raises awareness around issues such as mental health.

To address absence caused by musculoskeletal issues, we have introduced a self-referral programme, managed by our occupational health provider, which gives colleagues access to diagnosis and physiotherapy throughout the recovery period.

Meanwhile, our employee assistance programme offers free, confidential, 24/7 support for our people, both online and over the phone. Face-to-face therapy sessions are provided as required. Qualified counsellors provide support on a range of topics including personal, work and family relationships.

This year, all line managers took an emotional wellbeing awareness course. These interactive workshops enable attendees to identify signs and symptoms of poor mental health, and to deploy the most appropriate and practical support mechanisms available. We now have 46 mental health first aiders across our business, and a mandatory stress awareness course is run annually. We also participate in Mental Health Awareness Week and World Mental Health Day.

Our commitment to safe operations

The health and wellbeing of our people is critical to enable us to deliver the service our customers expect and deserve.

The high levels of service our customers expect are only possible if we embed high standards of health and safety management across the business. We are always looking to improve our performance, and to reduce risk. Our work in this area helps contribute to the United Nations Sustainable Development Goal (UN SDG) 8, Decent Work and Economic Growth.

Directors' report (continued)

Corporate responsibility (continued)

We put the safety of our people, customers and the public first

2019 achievements

- Enhanced safety advice to customers at the point of breakdown, both in our app and when they call us at the first point of contact.
- Campaigned to improve the safety of 'smart' motorways.
- Dedicated over 4,100 employee days to safety training.
- Helped our patrols to improve their manual handling techniques and minimise injury risk.
- Maintained our record of zero fatalities and zero reportable diseases.
- Partnered with a large vehicle manufacturing group to deliver essential safety recall work to their customers.

Looking to the future, we will:

- Continue our trial of the intelligent camera system within our operational vehicles
- Review the way in which in-field training is delivered, as well the ongoing competency framework, to make use of technologies and deliver innovative self-development tools

Accident performance

This year we experienced a one off increase in reportable incidents (those requiring to be notified to the Health and Safety Executive) in January, although normalised performance would see levels in 2019 similar to those in 2018, we took this rise seriously, implementing an action plan as soon as the increase occurred. As a result, within Road Operations a new strategy was launched which had Safety First as one of the fundamental drivers and objectives. We are pleased to report that a clearly identifiable improvement in accident performance was achieved from August onwards as a direct result of the implementation. We have continued to improve our accident and lost time performance, as demonstrated in the graph 'frequency rates', as well the number of days lost.

The profile of employees experiencing accidents reflects both the gender profile of the Company as well as the exposure risk faced by that group.

Our customers

During 2019, we undertook a complete review of how we help our customers stay safe at the roadside when they have broken down. We took the opportunity to review our safety advice as we expanded our breakdown reporting journeys to include reporting through the website. As a result, all customers, regardless of where they have broken down, receive safety advice at the start of their breakdown journey; this is mandatory as we believe our customers need to hear the advice that has saved lives. We have also made the advice simpler and we reinforce it with an additional question asked during every breakdown call to our office.

Monitoring accidents that occur to our customers or to the delegates attending our DriveTech courses is very important to us. Any case that is reported to us is reviewed by the Senior Management Team to ensure that corrective action is taken, and lessons are learnt to prevent re-occurrence. This year we are very pleased to report we have not had any reportable incidents in relation to a customer or delegate.

Our commitment to the environment

Our customers and colleagues expect the highest standards from us, and so we take our safety and environmental responsibilities extremely seriously. It's been 115 years since the AA was founded, and our commitment to operating responsibly has never wavered.

Directors' report (continued)

Corporate responsibility (continued)

By working together with our customers, colleagues, supply chain and the wider community, we can have a positive impact well beyond our own business. We are committed to doing our part to help deliver UN SDG 11, 'Sustainable Cities and Communities' and strive to manage our operations and delivery of products and services in a sustainable way.

Whether it's helping grow the number of electric charging points across the UK, continuing to review opportunities to use low emission commercial vehicles and alternative fuels as they come onto the market or reducing our emissions, we are consistently becoming more sustainable.

2019 achievements

Our fleet

- Reduced operational vehicle emissions per job by 15% against a 2015 baseline and a target of 20%, in part due to a reduction in workload following the 'Beast from the East' in 2018, and a further reduction of our workload in 2019.
- All of our roadside and recovery fleet vehicles now meet the Euro 6 standard.
- Developed our 'remote fix' capability; with smarter thinking at a distance, we were able to improve service while avoiding 35,000 patrol journeys in the first six months.
- 63% of our company car fleet is now either electric or hybrid; average CO2 emissions of our fleet were 74g/km in 2019, compared with 81g/km in 2018.

Our buildings

- Reduced Market Based emissions per ft² * by 82% against a 2015 baseline and a target of 60%.
- Purchased 100% renewable electricity for our offices and other buildings for the first time.
- Continued to roll out energy monitoring and savings initiatives throughout our estate.
- Installed a new building management system at our Oldbury office, and LED lighting in Cheadle and Melton Mowbray.
- Reduced waste generated by our offices by 16% per capita, and maintained our 'zero to landfill' policy.

* Net lettable.

Supporting wider communities

When our customers use their vehicles, that contributes to climate change. To help our customers reduce the impact of their driving, we:

- Offer information on theaa.com covering issues like vehicle maintenance, eco-driving techniques, car and fuel choice, the Low Emission and Ultra Low Emission Zones in London, biofuels and vehicle maintenance
- Provide traffic news and route planning to optimise journey times and lengths
- Support the emerging market for electric vehicles, publishing 'how to accelerate the take up of electric vehicles' and 'living with an electric car' features during the year, while inviting questions on our 'Ask Edmund' advice portal
- Promote environmentally responsible driving to pupils and corporate customers in our driving training business
- Work with our DriveTech business' corporate clients to support them in improving fuel efficiency within their fleets and/or vehicles
- Support eco-driving via our Smart Breakdown product, which monitors customers' driving style, awarding them bronze, silver and gold 'eco badges' as performance improves

Directors' report (continued)

Corporate responsibility (continued)

Looking to the future, we will:

- Align our assessment and management of climate risks to the Task Force on Climate-related Financial Disclosures reporting framework, an increasingly popular way of explaining how businesses will succeed in a lower-carbon world
- Increase the number of remote fixes we undertake, reducing unnecessary fuel consumption and improving service
- Expand our use of lightweight recovery vehicles in urban locations
- Review opportunities to use low emission commercial vehicles and alternative fuels as they come onto the market; a steering group has been set up to ensure this happens
- Regularly review our company car choices, and make low carbon and full electric vehicles available to employees
- Encourage video-conferencing to minimise travel between offices for meetings

Standards

It's important for us to meet popular, credible standards for environmental and sustainability performance.

- Continued successful certification of our integrated HS&E management system to the ISO 14001 standard.
- Undertook the CDP assessment for the second year running, achieving a climate change score of B-, above industry and global averages.
- Supplied greenhouse gas emissions data that has been independently verified to the international standards ISO14064-1 and ISO14064-3.

Summary GHG footprint

The Group's total greenhouse gas emissions for 2019/20 are listed in tonnes of carbon dioxide equivalent (tCO₂e). The majority of our emissions stem from our operational fleet (94%). Scope 2 emissions are reported for location (country-specific emission factors) and market (energy supplier-specific emission factors). Our footprint encompasses all activities that are material to our environmental impact and include both our fleet and property operations. This year we are pleased to report that we have seen reductions in both our scope 1 and scope 2 emissions. The significant reduction in scope 2 emissions is impacted by our move to purchasing renewable energy in our buildings along with ongoing energy reduction measures taken.

Methodology

Emissions reported as required under Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. Calculations follow the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), using emissions factors from UK Government's GHG Conversion Factors for Company Reporting 2019. Overseas factors have been obtained from national agencies. The GHG reporting period aligns with financial statements 2019/20.

Our commitment to society

Diversity and inclusion

We have a diverse workforce, so an inclusive workplace is critical. In 2019 we refreshed our diversity and inclusion (D&I) strategy to pull together the great work that is already happening across the business, and to do more of it. The main aim of the new strategy is to celebrate who we are while enabling everyone to be their best. The strategy consists of three objectives:

Directors' report (continued)

Corporate responsibility (continued)

- A diverse workforce that is representative of our current and future customers. One where we truly value and embrace differences of all kinds and realise how these contribute to a stronger business.
- An inclusive workforce where people can bring their whole self to work and therefore can unlock their true potential and perform at their best.
- Strong relationships with the diverse communities in which we operate, allowing us to understand local needs and promote us as an employer of choice.

We've established six clear areas of focus – gender balance, ability, carers, pride, origins and generations – to bring together people with shared characteristics and backgrounds to push forward positive change in our business. Each community is being championed by a member of our Executive team, demonstrating clear commitment and ownership. Alongside these communities we have also nominated D&I allies, who are passionate about making a difference.

Employees with disabilities

The AA is enormously proud of our policy that people with disabilities should have full and fair consideration for all vacancies. During the year, we continued to demonstrate our commitment to interviewing those people with disabilities who fulfil the minimum criteria and we endeavour to retain employees in the workforce if they become disabled during employment.

Creating value beyond our business

Our teams make a meaningful impact in the hundreds of communities they work in every day, from supporting community events and local fundraising to national charity days including Children in Need and Macmillan coffee mornings. We are also proud to use our technical knowledge and skills to support charitable events such as the Magical Taxi Tour and Bangers for Ben. In 2019, our patrols even helped Father Christmas on his way on three separate occasions!

Directors' confirmations

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 result 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.

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

Directors' report (*continued*)

Statement of directors' responsibilities in respect of the financial statements

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

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

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

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

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

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

Going concern

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

The Group has long-term contracts with a number of suppliers across different industries and its activities are highly cash generative. The Group's borrowings are long-term in nature and the Group had £102 million of cash and cash equivalents of which £62 million is freely available to use within the business.

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

Directors' report (*continued*)

Going concern (*continued*)

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

Financial risk management

Our financial risk management objectives and policies can be found in note 29.

Future developments

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

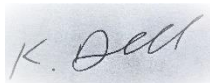
Dividend

The Group did not pay a dividend (2019: £nil) during the year.

Events after the reporting period

Details of events after the reporting period can be found in note 40.

On behalf of the Board



K Dangerfield
Director

25 JUNE 2020

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

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

Report on the audit of the financial statements

Opinion

In our opinion:

- AA Intermediate Co Limited's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 January 2020 and of the group's profit and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 January 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of financial statements set out on page 35, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Stuart Newman (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
26 June 2020

Consolidated income statement

for the year ended 31 January

| | Note | 2020 £m | 2019 £m |
|-------------------------------------|------|------------|------------|
| Revenue | 2 | 967 | 960 |
| Cost of sales | | (380) | (390) |
| Gross profit | | 587 | 570 |
| Administrative & marketing expenses | | (332) | (353) |
| Operating profit | 4 | 255 | 217 |
| Finance costs | 6 | (155) | (167) |
| Finance income | 7 | 1 | - |
| Profit before tax | | 101 | 50 |
| Tax expense | 10 | (19) | (10) |
| Profit for the year | | 82 | 40 |

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

Consolidated statement of comprehensive income

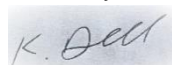
| for the year ended 31 January | | | |
|--|------|------------|------------|
| | Note | 2020 £m | 2019 £m |
| Profit for the year | | 82 | 40 |
| Other comprehensive expense on items that may be reclassified to the income statement in subsequent years | | | |
| Effective portion of changes in fair value of cash flow hedges | | (2) | (6) |
| Tax effect | 10 | - | 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 | 26 | 39 | 30 |
| Tax effect | 10 | (7) | (5) |
| | | 32 | 25 |
| Total other comprehensive income | | 30 | 20 |
| Total comprehensive income for the year | | 112 | 60 |

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

Consolidated statement of financial position

| | | as at 31 January | |
|--|------|------------------|----------------|
| | Note | 2020 £m | 2019 £m |
| Non-current assets | | | |
| Goodwill and other intangible assets | 11 | 1,350 | 1,326 |
| Property, plant and equipment | 13 | 52 | 123 |
| Right-of-use assets | 14 | 65 | - |
| Investments in joint ventures and associates | 15 | 5 | 5 |
| Financial assets at amortised cost | 28 | 4 | - |
| Deferred tax assets | 10 | 9 | 22 |
| | | 1,485 | 1,476 |
| Current assets | | | |
| Inventories | 16 | 4 | 4 |
| Trade and other receivables | 17 | 182 | 179 |
| Amounts owed by parent undertakings | 19 | 1,214 | 1,214 |
| Cash and cash equivalents | 18 | 94 | 20 |
| | | 1,494 | 1,417 |
| Assets classified as held for sale | 39 | 8 | 6 |
| Total assets | | 2,987 | 2,899 |
| Current liabilities | | | |
| Trade and other payables | 20 | (411) | (406) |
| Amount due to parent undertakings | 19 | (48) | (34) |
| Current tax payable | | (7) | (2) |
| Borrowings and loans | 21 | (200) | - |
| Lease liabilities | 30 | (23) | (49) |
| Provisions | 23 | (5) | (3) |
| | | (694) | (494) |
| Non-current liabilities | | | |
| Borrowings and loans | 21 | (2,535) | (2,724) |
| Derivative financial instruments | 36 | (2) | - |
| Lease liabilities | 30 | (40) | (12) |
| Defined benefit pension scheme liabilities | 26 | (162) | (218) |
| Provisions | 23 | (6) | (4) |
| Deferred consideration | 20 | - | (10) |
| | | (2,745) | (2,968) |
| Liabilities classified as held for sale | 39 | - | (5) |
| Total liabilities | | (3,439) | (3,467) |
| Net liabilities | | (452) | (568) |
| Equity | | | |
| Share capital | 24 | - | - |
| Cash flow hedge reserve | 25 | (2) | - |
| Retained earnings | 25 | (450) | (568) |
| Total equity attributable to equity holders of the parent | | (452) | (568) |

The financial statements were approved by the Board of Directors on 25 JUNE 2020 and signed on its behalf by



K Dangerfield

Director

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

Consolidated statement of changes in equity

| | Attributable to the equity holders of the parent | | | |
|---------------------------------------|--|-------------------------------------|----------------------------|--------------|
| | Share capital £m | Cash flow hedge reserve £m | Retained earnings £m | Total £m |
| At 1 February 2018 | - | 5 | (648) | (643) |
| Profit for the year | - | - | 40 | 40 |
| Other comprehensive income | - | (5) | 25 | 20 |
| Total comprehensive income | - | (5) | 65 | 60 |
| IFRS 9 conversion | - | - | 13 | 13 |
| IFRS 9 conversion deferred tax impact | - | - | (2) | (2) |
| Share-based payments (see note 35) | - | - | 4 | 4 |
| At 31 January 2019 | - | - | (568) | (568) |
| Profit for the year | - | - | 82 | 82 |
| Other comprehensive income | - | (2) | 32 | 30 |
| Total comprehensive income | - | (2) | 114 | 112 |
| Share-based payments (see note 35) | - | - | 4 | 4 |
| At 31 January 2020 | - | (2) | (450) | (452) |

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

Consolidated statement of cash flows

| | | for the year ended 31 January | |
|--|-----------|-------------------------------|--------------|
| | Note | 2020 £m | 2019 £m |
| Profit before tax | | 101 | 50 |
| Amortisation, depreciation and impairment | 11,13,14 | 85 | 77 |
| Net finance costs | 6,7 | 154 | 167 |
| Difference between pension charge and cash contributions | | (22) | 2 |
| Other adjustments to profit before tax | | (10) | 2 |
| Working capital and provisions: | | | |
| Increase in trade and other receivables | | (5) | (8) |
| Increase/(decrease) in trade and other payables | | 18 | (13) |
| Increase/(decrease) in provisions | | 6 | (11) |
| Total working capital and provisions adjustments | | 19 | (32) |
| Net cash flows from operating activities before tax | | 327 | 266 |
| Tax paid | | (10) | (15) |
| Net cash flows from operating activities | | 317 | 251 |
| Investing activities | | | |
| Capital expenditure | | (65) | (80) |
| Payment for acquisition of subsidiary, net of cash acquired | | (8) | (13) |
| Dividends from joint ventures and associates | | - | 1 |
| Net cash flows used in investing activities | | (73) | (92) |
| 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 | | (18) | (565) |
| Refinancing transactions | | (3) | (34) |
| Interest paid on borrowings | | (130) | (129) |
| Lease capital repayments net of proceeds from sale of fixed assets | | (25) | (22) |
| Payment of lease interest | | (4) | (4) |
| Net cash flows from financing activities | | (162) | (189) |
| Net increase/(decrease) in cash and cash equivalents | | 82 | (30) |
| Cash and cash equivalents at 1 February | 18 | 20 | 50 |
| Cash and cash equivalents at 31 January | 18 | 102 | 20 |

Consolidated statement of cash flows (continued)

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 £10m (2019: inflow of £2m) include share-based payment charge of £4m (2019: £4m), 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.

Notes to the consolidated financial statements

1 Basis of preparation and accounting policies

1.1 General information

The consolidated financial statements for the year ended 31 January 2020 comprise the financial statements of AA Intermediate Co Limited ('the Company') and its subsidiaries (together referred to as 'the Group'). AA Intermediate Co Limited is a private company limited by shares, incorporated and domiciled in the UK.

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

1.2 Basis of preparation

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

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

a) Going concern

The Group's operations are highly cash generative with a large proportion of its revenues coming from recurring transactions. The significant customer loyalty demonstrated by high renewal rates and lengthy customer tenure underpins this and, in addition to the cash balances at the reporting date, the Group has agreed undrawn credit facilities. The majority of the Group's borrowings are long term in nature, with the Class A3 notes due in July 2020 covered by the available Senior Term Facility (which has been drawn post year end, please see note 40) and no other borrowings due within 12 months from the date of signing of these financial statements. For the Group's longer-term viability, it remains a key assumption of the Directors that the Group continues to have ready access to both public debt and equity markets to enable these borrowings to be refinanced in due course. The Directors have reviewed projected cash flows, which have been updated for the potential impact of COVID-19, for a period of one year from the date of signing these financial statements and have concluded that the Group has sufficient funds to continue trading for this period and the foreseeable future. Therefore, the financial statements have been prepared using the going concern basis.

b) Basis of consolidation

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

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

1.3 Accounting policies

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

a) Interests in joint ventures and associates

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

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

1.3 Accounting policies (continued)

b) Foreign currencies

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

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

c) Business combinations and goodwill

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

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

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

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

d) Intangible assets

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

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

e) Software and development costs

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

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

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

1.3 Accounting policies (continued)

f) Property, plant and equipment

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

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

| | |
|-------------------------------------|------------------------------|
| Buildings | 50 years |
| Related fittings | 3 – 20 years |
| Leasehold properties | over the period of the lease |
| Plant, vehicles and other equipment | 3 – 10 years |

g) Inventories

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

h) Financial instruments

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

Trade receivables

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

Trade payables

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

Cash and cash equivalents

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

Debt instruments

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

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

1.3 Accounting policies (continued)

h) Financial instruments (continued)

Derivative financial instruments

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

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

Cash flow hedges

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

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

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

i) Impairment of assets

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

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

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

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

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

1.3 Accounting policies (continued)

j) Leases

As explained in note 1.3(w) below, on adoption of the new leases accounting standard IFRS 16 the Group has changed its accounting policy for leases where the Group is the lessee. The new policy and the impact of the change is described in note 1.3(w).

Until 31 January 2019, leases of property, plant and equipment where the Group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term liabilities. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life, or over the shorter of the asset's useful life and the lease term if there was no reasonable certainty that the Group would obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

k) Provisions and contingent liabilities

A provision is required when the Group has a present legal or constructive obligation as a result of a past event and it is probable that settlement will be required of an amount that can be reliably estimated.

Provisions are discounted where the impact is material. Material contingent liabilities are disclosed unless the likelihood of transfer of economic benefits is remote. Contingent assets are only disclosed if an inflow of economic benefits is probable.

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

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

l) Retirement benefit obligation

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

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

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

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

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

1.3 Accounting policies (continued)

l) Retirement benefit obligation (continued)

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

m) Revenue recognition

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

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

Commission income from insurers external to the Group is recognised at the commencement of the period of risk on a point in time basis.

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

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

n) Insurance contracts

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

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

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

o) Insurance aggregator fees

Insurance aggregator fees are the costs related to the acquisition of customers from insurance comparison websites. These costs are expensed to the income statement in full at the commencement of the insurance policy.

p) Adjusting operating items

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

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

q) Finance income and costs

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

Finance income comprises interest receivable on funds invested.

1.3 Accounting policies (continued)

r) Taxation

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

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

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

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

s) Segmental analysis

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

t) Share-based payments

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

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

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

u) Discontinued operations and disposals

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

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

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

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

1.3 Accounting policies (*continued*)

v) Critical accounting estimates and judgements

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

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

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

Retirement benefit obligation

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

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

Goodwill

The Group tests goodwill for impairment annually. The recoverable amounts of cash generating units have been determined based on value in use calculations which require the use of estimates (see note 27). Management has prepared discounted cash flows based on the latest strategic plan.

Intangibles

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

Share-based payments

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

Contingent consideration (see note 20)

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

Leases

As described further in note 1.3(w), on adoption of IFRS 16 the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 February 2019. Management's approach to determining the Group's incremental borrowing rate for a right-of-use asset involves using data provided by the Group's external advisors on the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the relevant right-of-use asset.

Except for the incremental borrowing rate, the principal estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value amounts of assets and liabilities within the next financial period are consistent with those disclosed in the financial statements for the year ended 31 January 2019.

1.3 Accounting policies (*continued*)

w) Changes in significant accounting policies

IFRS 16 'Leases'

On 1 February 2019, the Group adopted IFRS 16 'Leases', which replaced IAS 17 'Leases'. The Group has not restated comparative information for prior periods as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 February 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 February 2019.

For leases previously classified as finance leases the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. This has not resulted in any remeasurement adjustments to lease liabilities or the related right-of-use assets in respect of leases previously classified as finance leases under IAS 17.

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 February 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract previously accounted for as a finance lease is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying IAS 17 and Interpretation 4 'Determining whether an Arrangement contains a Lease'.

1.3 Accounting policies (continued)

w) Changes in significant accounting policies (continued)

Measurement of lease liabilities

| | £m |
|--|-----------|
| Operating lease commitments disclosed at 31 January 2019 (not recognised in statement of financial position) | 39 |
| (Less): short-term and low-value leases not recognised as a liability | - |
| | 39 |
| (Less): discount using the lessee's incremental borrowing rate at the date of initial application | (14) |
| Discounted lease liabilities not recognised as at 31 January 2019 | 25 |
| Add: finance lease liabilities recognised as at 31 January 2019 | 61 |
| Lease liability recognised at 1 February 2019 | 86 |
| Comprising: | |
| Current lease liabilities | 52 |
| Non-current lease liabilities | 34 |
| | 86 |

Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 January 2019.

Subsequently the right-of-use assets will be depreciated over their remaining lease terms.

Adjustments recognised in the statement of financial position on 1 February 2019

The change in accounting policy affected the following items in the statement of financial position on 1 February 2019:

- Property, plant and equipment – decrease of £66m
- Right-of-use assets – increase of £88m
- Lease incentive accrual – decrease of £2m
- Onerous lease provision – decrease of £1m
- Lease liabilities – increase of £25m

The net impact on retained earnings on 1 February 2019 was £nil.

Impact on segment disclosures and earnings per share

Trading EBITDA for the 2020 financial year increased as a result of the change in accounting policy. The following segments were affected by the change in policy:

| | 2020 £m |
|---|--------------------|
| Roadside | 3 |
| Insurance | - |
| Total IFRS 16 impact on Trading EBITDA | 3 |

In addition to the segmental impact, depreciation has increased by £3m and finance costs by £1m as a result of IFRS 16.

2 Segmental information and revenue disaggregation

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.

| | 2020 £m | 2019 £m |
|---|------------|------------|
| Revenue | | |
| Roadside | 841 | 841 |
| Insurance | 126 | 119 |
| Revenue | 967 | 960 |
| Trading EBITDA | | |
| Roadside | 290 | 285 |
| Insurance | 53 | 52 |
| Trading EBITDA | 343 | 337 |
| Share-based payments (see note 35) | (4) | (4) |
| Contingent consideration remeasurement gain (see note 20) | 9 | 1 |
| Pension service charge adjustment (see note 3) | (4) | (5) |
| Amortisation and depreciation (see notes 11, 13, 14) | (85) | (72) |
| Operating profit before adjusting operating items | 259 | 257 |
| Adjusting operating items (see note 5) | (4) | (40) |
| Operating profit | 255 | 217 |
| Net finance costs (see note 6 and 7) | (154) | (167) |
| Profit before tax | 101 | 50 |

2 Segmental information and revenue disaggregation (continued)

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

Segment performance is primarily evaluated using the Group's key performance measures of 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.

| Operating profit before adjusting operating items | Roadside | | Insurance | |
|--|------------|------------|------------|------------|
| | 2020 £m | 2019 £m | 2020 £m | 2019 £m |
| Trading EBITDA | 290 | 285 | 53 | 52 |
| Share-based payments | (2) | (3) | (2) | (1) |
| Pension service charge adjustment | (4) | (4) | - | (1) |
| Contingent consideration remeasurement gain | 9 | 1 | - | - |
| Amortisation and depreciation | (79) | (66) | (6) | (6) |
| Operating profit before adjusting operating items | 214 | 213 | 45 | 44 |

Disaggregation of revenue:

| | 2020 £m | 2019 £m |
|------------------------------------|------------|------------|
| Roadside: | | |
| Consumer (B2C) | | |
| Insured contracts | 486 | 482 |
| Pay for use contracts ¹ | 47 | 48 |
| Business Services (B2B) | | |
| Insured contracts | 33 | 36 |
| Pay for use contracts ¹ | 171 | 178 |
| Roadside other | | |
| DriveTech | 42 | 42 |
| Driving Schools | 20 | 21 |
| Other | 42 | 34 |
| Total Roadside | 841 | 841 |
| Insurance: | | |
| Brokering activities | 126 | 119 |
| Revenue | 967 | 960 |

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

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

3 Adjusted performance measures

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 | |
|---|----------|--|------------|
| | Note | 2020 £m | 2019 £m |
| Trading EBITDA | 2 | 343 | 337 |
| Share-based payments | 35 | (4) | (4) |
| Contingent consideration remeasurement gain | 2 | 9 | 1 |
| Pension service charge adjustment | 2 | (4) | (5) |
| Amortisation and depreciation | 11,13,14 | (85) | (72) |
| Adjusting operating items | 5 | (4) | (40) |
| Operating profit | 4 | 255 | 217 |

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

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

4 Operating profit

Operating profit is stated after charging:

| | 2020 £m | 2019 £m |
|--|------------|------------|
| Amortisation of owned intangible assets (see note 11) | 42 | 32 |
| Impairment of software (see note 11) | - | 5 |
| Depreciation of owned tangible fixed assets (see note 13) | 14 | 15 |
| Depreciation of leased tangible fixed assets (see note 13) | - | 25 |
| Depreciation of right-of-use assets (see note 14) | 29 | - |
| Operating lease rentals payable – land and buildings | - | 4 |

5 Adjusting operating items

| | 2020 £m | 2019 £m |
|---|------------|------------|
| Pension past service cost (see note 26) | - | 22 |
| Impairment of intangible fixed assets (see note 11) | - | 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 23) 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 (see note 26) and an impairment charge against software assets of £5m (see note 11).

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 6 and 22).

6 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 (see note 22) | - | 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.

7 Finance income

| | 2020 £m | 2019 £m |
|---|------------|------------|
| Interest receivable from financial assets held for cash management purposes | 1 | - |
| Total finance income | 1 | - |

8 Employee costs

| | 2020 £m | 2019 £m |
|------------------------------|------------|------------|
| Wages and salaries | 250 | 245 |
| Social security costs | 25 | 26 |
| Other pension costs | 30 | 30 |
| Share-based payments expense | 4 | 4 |
| | 309 | 305 |

In the prior year the pension past service cost of £22m was excluded from retirement benefit costs above (see note 26).

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

| | 2020 | 2019 |
|-------------------------------|--------------|--------------|
| Operational | 6,313 | 6,214 |
| Management and administration | 1,093 | 1,180 |
| | 7,406 | 7,394 |

9 Directors' remuneration

| | 2020 £m | 2019 £m |
|--|------------|------------|
| Directors' remuneration | 1 | 2 |
| Contributions to money purchase pension schemes | - | - |
| Compensation for loss of office | - | - |
| Aggregate remuneration in respect of qualifying services | 1 | 2 |
| Members of defined benefit pension schemes | 1 | 1 |

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

| | | |
|---|---|---|
| Remuneration | - | 1 |
| Contributions to money purchase pension schemes | - | - |

The accrued pension of the highest paid director was £nil at 31 January 2020 (2019: £nil). The highest paid director had contributions to a money purchase pension plan of £9,246 (2019: £56,160).

10 Tax

The major components of the income tax expense are:

| | 2020 £m | 2019 £m |
|---|------------|------------|
| Consolidated income statement | | |
| Current income tax | | |
| Current income tax charge | 15 | 8 |
| | 15 | 8 |
| Deferred tax | | |
| Origination and reversal of temporary differences | 4 | 4 |
| Adjustments in respect of prior years | - | (2) |
| | 4 | 2 |
| Tax expense in the income statement | 19 | 10 |

| | 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 |

10 Tax (continued)

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

| | 2020 £m | 2019 £m |
|--|------------|------------|
| Profit before tax | 101 | 50 |
| Tax at rate of 19.0% (2019: 19.0%) | 19 | 10 |
| Adjustments relating to prior years | - | (2) |
| 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 18.8% (2019: 20.0%) | 19 | 10 |

Deferred tax by type of temporary difference

| | Consolidated statement of financial position | | Consolidated income statement | |
|---|---|------------|----------------------------------|------------|
| | 2020 £m | 2019 £m | 2020 £m | 2019 £m |
| Accelerated depreciation for tax purposes | 7 | 9 | - | (1) |
| Revaluations of land and buildings to fair value | (1) | (1) | - | - |
| Rollover relief | (2) | (2) | - | - |
| Pension | (6) | 3 | 2 | (2) |
| Revaluation of cash flow hedges | - | - | - | 3 |
| Short-term temporary differences | 5 | 4 | (1) | (1) |
| Losses available for offsetting against future taxable income | 6 | 9 | 3 | 3 |
| Deferred tax expense | | | 4 | 2 |
| Net deferred tax assets | 9 | 22 | | |

Reconciliation of net deferred tax assets

| | 2020 £m | 2019 £m |
|---|------------|------------|
| At 1 February | 22 | 30 |
| Tax expense recognised in the income statement | (4) | (2) |
| Tax expense recognised in other comprehensive income | (7) | (4) |
| Deferred tax liability on acquisition of subsidiary (see note 12) | (2) | - |
| Deferred tax recognised directly in equity | - | (2) |
| At 31 January | 9 | 22 |

10 Tax (continued)

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

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

Deferred tax has been recognised at an overall rate of 17.0% at 31 January 2020 (2019: 17.2%). The rate has been adjusted to reflect the expected reversal profile of the Group's temporary differences.

The Group has carried forward tax losses which arose in the UK of £36m (deferred tax equivalent £6m) (2019: £52m tax losses, deferred tax equivalent £9m) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. A deferred tax asset has been recognised in respect of these losses. A further £1m (2019: £1m) deferred tax asset relating to other tax losses has not been recognised due to the uncertainty of the availability of suitable future profits to enable recovery.

The new corporate interest restriction legislation was introduced with effect from 1 April 2017. As the majority of the Group activity is taxed within the UK, these restrictions have not had a significant impact on the deductibility of the Group's interest or the Group's tax charge.

11 Goodwill and other intangible assets

| | Goodwill £m | Customer relationships £m | Software £m | Total £m |
|------------------------------------|----------------|---------------------------------|----------------|--------------|
| Cost | | | | |
| At 1 February 2018 | 1,197 | - | 248 | 1,445 |
| Additions | - | - | 66 | 66 |
| Disposals | - | - | (66) | (66) |
| At 31 January 2019 | 1,197 | - | 248 | 1,445 |
| Additions | - | 11 | 55 | 66 |
| Disposals | - | - | (7) | (7) |
| At 31 January 2020 | 1,197 | 11 | 296 | 1,504 |
| Amortisation and impairment | | | | |
| At 1 February 2018 | 27 | - | 122 | 149 |
| Amortisation | - | - | 32 | 32 |
| Impairment | - | - | 5 | 5 |
| Disposals | - | - | (67) | (67) |
| At 31 January 2019 | 27 | - | 92 | 119 |
| Amortisation | - | 1 | 41 | 42 |
| Disposals | - | - | (7) | (7) |
| At 31 January 2020 | 27 | 1 | 126 | 154 |
| Net book value | | | | |
| At 31 January 2020 | 1,170 | 10 | 170 | 1,350 |
| At 31 January 2019 | 1,170 | - | 156 | 1,326 |

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 £43m (2019: £55m) 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 27 for details.

12 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 5 and note 28 for further details.

Disposals during the year ended 31 January 2019

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

13 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 (see note 1.3(w)) | - | - | (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 |
| 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 (see note 1.3(w)) | - | - | (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.

14 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 or valuation | | | | |
| At 1 February 2019 | - | - | - | - |
| Adjustment for change in accounting policy (see note 1.3(w)) | 22 | 111 | 8 | 141 |
| At 1 February 2019 restated | 22 | 111 | 8 | 141 |
| Additions | 1 | 33 | - | 34 |
| Disposals | - | (71) | - | (71) |
| At 31 January 2020 | 23 | 73 | 8 | 104 |
| Accumulated depreciation and impairment | | | | |
| At 1 February 2019 | - | - | - | - |
| Adjustment for change in accounting policy (see note 1.3(w)) | - | 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 | 20 | 45 | - | 65 |
| At 31 January 2019 | - | - | - | - |

15 Investments in joint ventures and associates

| | 2020 | | | 2019 | | |
|----------------------|----------------------|------------------|-------------|----------------------|------------------|-------------|
| | Joint ventures £m | Associates £m | Total £m | Joint ventures £m | Associates £m | Total £m |
| At 1 February | 1 | 4 | 5 | 2 | 4 | 6 |
| Dividend received | - | - | - | (1) | - | (1) |
| At 31 January | 1 | 4 | 5 | 1 | 4 | 5 |

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

| Company | Country of registration | Nature of business |
|--|-------------------------|--------------------|
| AA Law Limited (49% interest held) ¹ | England | Insurance services |
| Intelematics Europe Limited (32% interest held) ² | England | Roadside services |
| AA Media Limited (49% interest held) ³ | England | Publishing |

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

² The Group exercises joint control over Intelematics Europe Limited through its joint influence over key decision-making. Intelematics Europe Limited has A and B ordinary shares. Intelematics Europe Limited changed its name to DRVN Solutions Limited on 10 June 2020.

³ The Group exercises joint control over AA Media Limited through its equal representation on the Board. AA Media Limited has A ordinary shares.

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

| Company | Country of registration | Nature of business |
|-----------------------------------|-------------------------|--------------------|
| ARC Europe SA (20% interest held) | Belgium | Roadside services |

16 Inventories

| | 2020 £m | 2019 £m |
|----------------|------------|------------|
| Finished goods | 4 | 4 |
| | 4 | 4 |

17 Trade and other receivables

| | 2020 £m | 2019 £m |
|------------------------|------------|------------|
| Current | | |
| Trade receivables | 142 | 141 |
| Deferred consideration | - | 3 |
| Prepayments | 19 | 14 |
| Contract assets | 15 | 17 |
| Other receivables | 6 | 4 |
| | 182 | 179 |

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

18 Cash and cash equivalents

| | 2020 £m | 2019 £m |
|---|------------|------------|
| Cash at bank and in hand – available | 62 | 12 |
| Cash at bank and in hand – restricted | 40 | 8 |
| Cash and cash equivalents as presented in consolidated statement of cash flows | 102 | 20 |
| Less: presented as assets held for sale (see note 39) | (8) | - |
| Cash and cash equivalents as presented in consolidated statement of financial position | 94 | 20 |

Restricted cash is cash which is subject to contractual or regulatory restrictions. The Group has restricted cash, consisting of £8m (2019: £8m) held by and on behalf of the Group's insurance businesses which are subject to contractual or regulatory restrictions 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 22). 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 40). Therefore, if not required, the excess cash will be returned to available cash on 31 July 2020.

19 Amounts owed by/due to parent undertakings

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

20 Trade and other payables

| | 2020 £m | 2019 £m |
|---------------------------------------|------------|------------|
| Current | | |
| Trade payables | 98 | 79 |
| Other taxes and social security costs | 25 | 9 |
| Accruals | 55 | 58 |
| Deferred income | 213 | 229 |
| Deferred consideration | 1 | 2 |
| Other payables | 19 | 29 |
| | 411 | 406 |
| 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.

21 Borrowings and loans

| | 2020 £m | 2019 £m |
|--------------------------|------------|------------|
| Current | | |
| Borrowings (see note 22) | 200 | - |
| Non-current | | |
| Borrowings (see note 22) | 2,535 | 2,724 |
| | 2,735 | 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.

22 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 |

At 31 January 2020, all borrowings have fixed interest rates. The weighted average interest rate for all borrowings of 4.52% 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.

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 40 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 the Company and its subsidiaries. The Class A facility security over the Group's assets ranks ahead of the Class B2 notes. The Class B2 notes have first ranking security over the assets of the immediate parent undertaking of the Group, AA Mid Co Limited. The Company can only pay a dividend when certain Net Debt to Trading EBITDA and cash flow criteria are met.

22 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 40), 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.

23 Provisions and contingent liabilities

| | 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 5).

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. After further discussion with external counsel the Companies decided to apply for a strike-out application in relation to the entirety of Mr Mackenzie's claims against them. This application was filed in May and the Companies are awaiting a court date for this application. 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.

24 Share capital

| | 2020 £ | 2019 £ |
|---|-----------|-----------|
| Allotted, called up and fully paid | | |
| 20 ordinary shares of £1 each | 20 | 20 |
| | 20 | 20 |

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

25 Reserves

| | Cash flow hedge reserve £m | Retained earnings £m | Total £m |
|--|-------------------------------------|----------------------------|--------------|
| At 1 February 2018 | 5 | (648) | (643) |
| Retained profit for the year | - | 40 | 40 |
| IFRS 9 conversion | - | 13 | 13 |
| IFRS 9 conversion deferred tax impact | - | (2) | (2) |
| Share-based payments (note 35) | - | 4 | 4 |
| Other comprehensive income: | | | |
| Remeasurement gains on defined benefit schemes (note 26) | - | 30 | 30 |
| Tax effect of remeasurement gains on defined benefit schemes (note 10) | - | (5) | (5) |
| Effective portion of changes in fair value of cash flow hedges | (6) | - | (6) |
| Tax effect of effective portion of changes in fair value of cash flow hedges (note 10) | 1 | - | 1 |
| At 31 January 2019 | - | (568) | (568) |
| Retained profit for the year | - | 82 | 82 |
| Share-based payments (note 35) | - | 4 | 4 |
| Other comprehensive income: | | | |
| Remeasurement gains on defined benefit schemes (note 26) | - | 39 | 39 |
| Tax effect of remeasurement gains on defined benefit schemes (note 10) | - | (7) | (7) |
| Effective portion of changes in fair value of cash flow hedges | (2) | - | (2) |
| At 31 January 2020 | (2) | (450) | (452) |

Cash flow hedge reserve

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

Dividends

In the year ended 31 January 2020, no dividends were paid (2019: £nil)

As at 31 January 2020, the Company had distributable reserves of £20m (2019: £20m).

26 Pensions

The Group operates two funded defined benefit pension schemes: the AA UK Pension Scheme (AAUK) and the AA Ireland Pension Scheme (AAI). The assets of the schemes are held separately from those of the Group in independently administered funds. The AAUK scheme has a closed final salary and a Career Average Revalued Earnings (CARE) section which was closed from 1 April 2020 following consultation with affected employees. All future pensions build-up from 1 April 2020 in the UK is now on a defined contribution basis. See note 40 for more details. The CARE section provided for benefits to accrue on an average salary basis. During the 2017 financial year and following the sale of the Irish business by the Group, AA Corporation Limited, a UK subsidiary of the Group, became the sponsor of the AAI scheme. The Group also operates an unfunded post-retirement Private Medical Plan (AAPMP), which is treated as a defined benefit scheme and is not open to new entrants.

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

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

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

The valuations have been based on a full assessment of the liabilities of the schemes which have been updated where appropriate to 31 January 2020 by independent qualified actuaries.

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

| | As at 31 January 2020 | | | Total £m |
|---|-----------------------|-------------|-------------|--------------|
| | AAUK £m | AAI £m | AAPMP £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 | | | Total £m |
|---|-----------------------|------------|-------------|--------------|
| | AAUK £m | AAI £m | AAPMP £m | |
| Present value of the defined benefit obligation in respect of pension plans | (2,409) | (50) | (45) | (2,504) |
| Fair value of plan assets | 2,242 | 44 | - | 2,286 |
| Deficit | (167) | (6) | (45) | (218) |

26 Pensions (continued)

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).

In November 2013, the Group implemented an asset-backed funding scheme which remains in place. The asset-backed funding scheme provides a long-term deficit reduction plan where the Group makes an annual deficit reduction contribution of £14m increasing annually with inflation, until October 2038 or until the AAUK scheme funding deficit is removed if earlier, secured on the Group's brands.

The last completed triennial valuation at the reporting date for the AAUK scheme was as at 31 March 2016 and was completed in June 2017, where the Group agreed a funding deficit of £366m with the pension trustees. The Group committed to paying an additional £8m per annum from July 2017 to March 2019, £11m per annum from April 2019 to March 2021, uplifted in line with RPI from 1 April 2020 and £13m per annum from April 2021 to June 2026, uplifted in line with RPI from 1 April 2022 annually.

An updated triennial valuation for the AAUK scheme as at 31 March 2019 was underway at the reporting date and was completed in February 2020. The funding deficit has reduced and this has resulted in an agreement to reduce the additional deficit reduction payments. See note 40.

Using an inflation assumption of 2.8% and a discount rate assumption of 1.6%, the present value of the future deficit reduction contributions has been calculated. Based on these assumptions, the Group expects the present value of deficit reduction contributions to exceed the IAS 19 deficit. The Group notes that, in the event that a surplus emerges, it would have an unconditional right to a refund of the surplus assuming the gradual settlement of AAUK scheme liabilities over time until all members have left the scheme.

The last triennial valuation for the AAI scheme was as at 31 December 2016, the result of which was an increase in the going concern deficit with the contribution level remaining the same. The Group made deficit reduction contributions of £1m in the year ended 31 January 2020 and will continue to make annual deficit reduction contributions, increasing with inflation, until December 2023 or until an alternative agreement is signed with the AAI scheme Trustee. The next triennial valuation of the AAI scheme will take place as at 31 December 2019 and is currently ongoing. The results from the review are expected to be received in late 2020.

In total, the Group is currently committed to pay £4m in ongoing employer contributions until the closure of the AAUK scheme CARE section and £25m in deficit reduction employer contributions to its defined benefit plans (AAUK and AAI) in the year ending 31 January 2021.

The Group recognised a charge in the income statement of £8m in respect of defined contribution pension scheme costs in the year (2019: £6m). This is expected to increase in the year ending 31 January 2021 due to pension accrual being fully on a defined contribution basis from 1 April 2020.

26 Pensions (continued)

Total Group schemes

| | 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) | - | - |

26 Pensions (continued)

AAUK scheme

| | Assets £m | Liabilities £m | Income statement £m | Other comprehensive income £m |
|--|--------------|-------------------|---------------------------|--|
| Balance at 1 February 2018 | 2,303 | (2,491) | - | - |
| Current service cost | - | (25) | (25) | - |
| Past service cost | - | (22) | (22) | - |
| Interest on defined benefit scheme assets/(liabilities) | 58 | (63) | (5) | - |
| Amounts recognised in the income statement | 58 | (110) | (52) | - |
| Effect of changes in financial assumptions | - | 100 | - | 100 |
| Effect of changes in demographic assumptions | - | 15 | - | 15 |
| Effect of experience adjustment | - | (15) | - | (15) |
| Return on plan assets excluding interest income | (69) | - | - | (69) |
| Amounts recognised in the statement of comprehensive income | (69) | 100 | - | 31 |
| Contribution from scheme participants | 1 | (1) | - | - |
| Benefits paid from scheme assets | (93) | 93 | - | - |
| Ongoing employer contributions | 20 | - | - | - |
| Deficit reduction employer contributions | 22 | - | - | - |
| Movements through cash | (50) | 92 | - | - |
| Balance at 31 January 2019 | 2,242 | (2,409) | - | - |
| Current service cost | - | (23) | (23) | - |
| Interest on defined benefit scheme assets/(liabilities) | 58 | (62) | (4) | - |
| Amounts recognised in the income statement | 58 | (85) | (27) | - |
| Effect of changes in financial assumptions | - | (434) | - | (434) |
| Effect of changes in demographic assumptions | - | 222 | - | 222 |
| Effect of experience adjustment | - | 52 | - | 52 |
| Return on plan assets excluding interest income | 207 | - | - | 207 |
| Amounts recognised in the statement of comprehensive income | 207 | (160) | - | 47 |
| Contribution from scheme participants | 1 | (1) | - | - |
| Benefits paid from scheme assets | (79) | 79 | - | - |
| Ongoing employer contributions | 18 | - | - | - |
| Deficit reduction employer contributions | 25 | - | - | - |
| Movements through cash | (35) | 78 | - | - |
| Balance at 31 January 2020 | 2,472 | (2,576) | - | - |

26 Pensions (*continued*)

AAI scheme

| | Assets £m | Liabilities £m | Income statement £m | Other comprehensive income £m |
|--|--------------|-------------------|---------------------------|--|
| Balance at 1 February 2018 | 43 | (50) | - | - |
| Current service cost | - | - | - | - |
| Past service cost | - | - | - | - |
| Interest on defined benefit scheme assets/(liabilities) | 1 | (1) | - | - |
| Amounts recognised in the income statement | 1 | (1) | - | - |
| Effect of changes in financial assumptions | - | (1) | - | (1) |
| Effect of changes in demographic assumptions | - | - | - | - |
| Effect of experience adjustment | - | - | - | - |
| Return on plan assets excluding interest income | - | - | - | - |
| Amounts recognised in the statement of comprehensive income | - | (1) | - | (1) |
| Contribution from scheme participants | - | - | - | - |
| Benefits paid from scheme assets | (2) | 2 | - | - |
| Ongoing employer contributions | - | - | - | - |
| Deficit reduction employer contributions | 2 | - | - | - |
| Movements through cash | - | 2 | - | - |
| Balance at 31 January 2019 | 44 | (50) | - | - |
| Current service cost | - | - | - | - |
| Interest on defined benefit scheme assets/(liabilities) | 1 | (1) | - | - |
| Amounts recognised in the income statement | 1 | (1) | - | - |
| Effect of changes in financial assumptions | - | (14) | - | (14) |
| Effect of changes in demographic assumptions | - | - | - | - |
| Effect of experience adjustment | - | - | - | - |
| Return on plan assets excluding interest income | 5 | - | - | 5 |
| Amounts recognised in the statement of comprehensive income | 5 | (14) | - | (9) |
| Foreign exchange (loss)/gain | (2) | 2 | - | - |
| Contribution from scheme participants | - | - | - | - |
| Benefits paid from scheme assets | (2) | 2 | - | - |
| Ongoing employer contributions | - | - | - | - |
| Deficit reduction employer contributions | 1 | - | - | - |
| Movements through cash | (1) | 2 | - | - |
| Balance at 31 January 2020 | 47 | (61) | - | - |

26 Pensions (*continued*)

AA PMP scheme

| | Assets £m | Liabilities £m | Income statement £m | Other comprehensive income £m |
|--|--------------|-------------------|---------------------------|--|
| Balance at 1 February 2018 | - | (45) | - | - |
| Current service cost | - | - | - | - |
| Past service cost | - | - | - | - |
| Interest on defined benefit scheme assets/(liabilities) | - | (1) | (1) | - |
| Amounts recognised in the income statement | - | (1) | (1) | - |
| Effect of changes in financial assumptions | - | - | - | - |
| Effect of changes in demographic assumptions | - | - | - | - |
| Effect of experience adjustment | - | - | - | - |
| Return on plan assets excluding interest income | - | - | - | - |
| Amounts recognised in the statement of comprehensive income | - | - | - | - |
| Contribution from scheme participants | - | - | - | - |
| Benefits paid from scheme assets | (1) | 1 | - | - |
| Ongoing employer contributions | 1 | - | - | - |
| Deficit reduction employer contributions | - | - | - | - |
| Movements through cash | - | 1 | - | - |
| Balance at 31 January 2019 | - | (45) | - | - |
| Current service cost | - | - | - | - |
| Interest on defined benefit scheme assets/(liabilities) | - | (1) | (1) | - |
| Amounts recognised in the income statement | - | (1) | (1) | - |
| Effect of changes in financial assumptions | - | (4) | - | (4) |
| Effect of changes in demographic assumptions | - | 5 | - | 5 |
| Effect of experience adjustment | - | - | - | - |
| Return on plan assets excluding interest income | - | - | - | - |
| Amounts recognised in the statement of comprehensive income | - | 1 | - | 1 |
| Contribution from scheme participants | - | - | - | - |
| Benefits paid from scheme assets | (1) | 1 | - | - |
| Ongoing employer contributions | 1 | - | - | - |
| Deficit reduction employer contributions | - | - | - | - |
| Movements through cash | - | 1 | - | - |
| Balance at 31 January 2020 | - | (44) | - | - |

26 Pensions (continued)

Fair value of plan assets

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

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

| | 2020 | | 2019 | |
|--|---|--|---|--|
| | Assets with a quoted market price £m | Assets without a quoted market price £m | Assets with a quoted market price £m | Assets without a quoted market price £m |
| Equities | - | 244 | 156 | 324 |
| Bonds/gilts | 474 | 571 | 514 | 205 |
| Property | 32 | 255 | 87 | 189 |
| Hedge funds | 1 | 300 | 21 | 394 |
| Private equity | - | 44 | 17 | 14 |
| Cash/net current assets | 15 | 9 | 15 | 2 |
| Annuity policies | - | 527 | - | 304 |
| Total AAUK scheme assets | 522 | 1,950 | 810 | 1,432 |
| Actual return on AAUK plan assets | | 265 | | (11) |

Approximately £19m of unquoted assets allocated to private equity and £9m of unquoted assets allocated to property have been measured at amortised cost rather than fair value.

All assets of the AAUK scheme are held in unquoted pooled investment vehicles which invest in mixtures of quoted and unquoted funds. The above table displays the quoted and unquoted splits of the underlying investments.

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

| | 2020 | | 2019 | |
|--|---|--|---|--|
| | Assets with a quoted market price £m | Assets without a quoted market price £m | Assets with a quoted market price £m | Assets without a quoted market price £m |
| Equities | 11 | - | 10 | - |
| Bonds/gilts | 22 | - | 18 | - |
| Property | - | 5 | - | 5 |
| Hedge funds | 9 | - | 11 | - |
| Total AA Ireland scheme assets | 42 | 5 | 39 | 5 |
| Actual return on AA Ireland plan assets | | 6 | | 1 |

26 Pensions (*continued*)

Investment strategy

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

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

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

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

26 Pensions (continued)

Pension plan assumptions

The principal actuarial assumptions were as follows:

| | AAUK | | AAI | | AAPMP | |
|--|------------|-----------|------------|-----------|------------|-----------|
| | 2020 % | 2019 % | 2020 % | 2019 % | 2020 % | 2019 % |
| Pensioner discount rate | 1.6 | 2.5 | 0.3 | 1.3 | 1.6 | 2.5 |
| Non-pensioner discount rate | 1.8 | 2.7 | 0.8 | 2.1 | 1.6 | 2.5 |
| Pensioner RPI | 2.9 | 3.2 | - | - | 2.9 | 3.2 |
| Non-pensioner RPI | 2.8 | 3.1 | - | - | 2.9 | 3.2 |
| Pensioner CPI | 2.0 | 2.1 | 1.2 | 1.3 | 2.0 | 2.1 |
| Non-pensioner CPI | 2.0 | 2.0 | 1.2 | 1.3 | 2.0 | 2.1 |
| Rate of increase of pensions in payment (final salary sections) - pensioner | 2.8 | 3.1 | - | - | - | - |
| Rate of increase of pensions in payment (final salary sections) – non-pensioner | 2.8 | 3.0 | - | - | - | - |
| Rate of increase of pensions in payment (CARE section) - pensioner | 1.7 | 1.7 | - | - | - | - |
| Rate of increase of pensions in payment (CARE section) – non-pensioner | 1.7 | 1.6 | - | - | - | - |
| Pension increase for deferred benefits | 2.0 | 2.0 | 1.2 | 1.3 | - | - |
| Medical premium inflation rate | - | - | - | - | 6.9 | 7.2 |

Mortality assumptions are set using standard tables based on scheme-specific experience where available and an allowance for future improvements. For 2020, the assumptions used were in line with the SAPS (S3) series mortality tables with scheme-specific adjustments (2019 – SAPS (S2) series) with future improvements in line with the CMI_2018 model with a 1.25% long-term rate of improvement (2019 – CMI_2017 model with a 1.25% long-term rate of improvement). The AAI scheme mortality assumptions are set using standard tables with scheme-specific adjustments.

The AA schemes' overall assumptions are that an active male retiring in normal health currently aged 60 will live on average for a further 25 years (2019: 27 years) and an active female retiring in normal health currently aged 60 will live on average for a further 28 years (2019: 29 years). The reduction in life expectancies are as a result of incorporating scheme-specific analysis of member mortality rates into the annual reporting valuations.

26 Pensions (*continued*)

Sensitivity analysis

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

| | For the year ended 31 January 2020 | | |
|--|------------------------------------|-----------|-------------|
| | AAUK £m | AAI £m | AAPMP £m |
| Increase of 0.25% in discount rate | 128 | 3 | 2 |
| Increase of 0.25% in RPI/CPI | (115) | (1) | - |
| Increase of 1% in medical claims inflation | - | - | (8) |
| Increase of one year of life expectancy | (101) | (2) | - |

An equivalent decrease in the assumptions at 31 January 2020 would have had a broadly equal but opposite effect on the amounts shown above, on the basis that all other variables remain constant.

The weighted average duration of the defined benefit obligation at 31 January 2020 is around 20 years.

Pension scheme risks

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

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

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

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

26 Pensions (*continued*)

Pension scheme risks (*continued*)

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

The AAUK scheme aims to hedge the majority of both the interest rate risk and inflation risk (of the liabilities on the scheme-specific funding measure) as part of a policy to reduce financial risks. As at 31 December 2019, the scheme had hedged around 85-90% of interest rate and inflation risk (of the liabilities on the scheme-specific funding measure). Hedging levels fluctuate over time and are monitored closely by the scheme trustees and any changes required would be made as, and when, prevailing pricing is regarded as reasonable value in the circumstances, or if any other reasons drive a policy change on risk appetite.

Bulk annuity policy purchase

During the year, the trustee of the AAUK scheme purchased a bulk annuity policy which insures all the benefits payable under the scheme in respect of 1,790 pensioner and dependant members. The trustee has invested in such a policy as the scheme will see all financial and demographic risks exactly matched for the covered members. This policy secures the benefits of a further proportion of scheme members following the purchase of a bulk annuity policy in August 2018 which insured all the benefits payable under the scheme in respect of 2,510 pensioner and dependant members.

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

At 9 September 2019, the date of the risk transfer to the insurer, the defined benefit obligation for the covered population was c.£25m less than the estimated premium of c.£250m paid for the policy. This difference between premium paid and fair value of the insurance policy is recognised in the statement of financial position at the 31 January 2020 year end through other comprehensive income as an asset loss. It should be noted that this is separate to the measure of the funding deficit (used to set cash contributions to the scheme) which was reduced as a result of this policy given the prudent nature of the funding measure.

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

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, the hedging strategy noted above, including the bulk annuity purchases, represents significant progress in controlling the Group's exposure to future increases in the deficit.

27 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 | 2019 |
|-----------------------|--------------|-------|
| | £m | £m |
| Roadside Assistance | 874 | 874 |
| Insurance Services | 240 | 240 |
| AA Cars (see note 20) | 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.

28 Financial assets and financial liabilities

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

Financial assets

| | 2020 £m | 2019 £m |
|---|--------------|--------------|
| Financial assets at amortised cost | | |
| Loans to related parties | 4 | - |
| Cash and cash equivalents (see note 18) | 102 | 20 |
| Trade receivables (see note 17) | 142 | 141 |
| Deferred consideration (see note 17) | - | 3 |
| Contract assets and other receivables (see note 17) | 21 | 21 |
| Amounts owed by parent undertaking | 1,214 | 1,214 |
| Total financial assets | 1,483 | 1,399 |

On 29 March 2019, the Group completed the sale of 51% of the share capital of AA Media Limited. The Group retained 49% of the share capital, subsequently accounting for its investment as an investment in a joint venture. Also on 29 March 2019, AA Media Limited issued £4m of 5% fixed rate loan notes to the Group, redeemable at par on 29 March 2024. The Group has recognised this receivable from a related party as a financial asset at amortised cost.

Financial liabilities

| | 2020 £m | 2019 £m |
|---|--------------|--------------|
| Financial liabilities at fair value through other comprehensive income | | |
| Derivative financial instruments (see note 36) | 2 | - |
| Financial liabilities at amortised cost | | |
| Trade payables (see note 20) | 98 | 79 |
| Other payables and accruals | 74 | 63 |
| Deferred consideration (see note 20) | 1 | 12 |
| Lease liabilities (see note 30) | 63 | 61 |
| Borrowings (see note 21) | 2,735 | 2,724 |
| Total financial liabilities | 2,973 | 2,939 |

28 Financial assets and financial liabilities (continued)

Fair values

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

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

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

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

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

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

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

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

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

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

At 31 January 2020:

| | Carrying value £m | Fair value measurement using | | |
|--|----------------------|---|--|--|
| | | Quoted prices in active markets (Level 1) £m | Significant observable inputs (Level 2) £m | Significant unobservable inputs (Level 3) £m |
| Financial liabilities measured at fair value | | | | |
| Fuel swaps (note 36) | 2 | 2 | - | - |
| Liabilities for which fair values are disclosed | | | | |
| Loan notes (note 22) | 2,735 | 2,772 | - | - |

28 Financial assets and financial liabilities (continued)

At 31 January 2019:

| | Carrying value £m | Fair value measurement using | | |
|--|----------------------|---|--|--|
| | | Quoted prices in active markets (Level 1) £m | Significant observable inputs (Level 2) £m | Significant unobservable inputs (Level 3) £m |
| Financial liabilities measured at fair value | | | | |
| Deferred consideration (due in more than one year) (note 20) | 10 | - | 10 | - |
| Liabilities for which fair values are disclosed | | | | |
| Loan notes (note 22) | 2,724 | 2,577 | - | - |

There have been no transfers between the levels and no non-recurring fair value measurements of assets and liabilities during the two years to 31 January 2020.

29 Financial risk management objectives and policies

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

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

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

Market risk

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

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

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

| | 2020 £m | 2019 £m |
|--|----------------|----------------|
| Fixed rate instruments | | |
| Financial assets | 4 | - |
| Financial liabilities | (2,798) | (2,786) |
| Net exposure to fixed rate instruments | (2,794) | (2,786) |
| Net exposure to variable rate instruments | - | - |

Sensitivity of fixed-rate instruments

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

Sensitivity of variable rate instruments

An increase of 50 basis points in interest rates at 31 January 2020 would have increased equity by £nil (2019: £nil) and would have had no impact on profit or cash because the Senior Term Facility was repaid during the prior year.

Credit risk

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

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

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

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

29 Financial risk management objectives and policies (continued)

The ageing analysis of trade receivables is as follows:

| | Total £m | Neither past due nor impaired £m | Past due but not impaired | | |
|-------------|-------------|---|---------------------------|--------------------|----------------|
| | | | < 30 days £m | 30 - 60 days £m | 60+ days £m |
| 2020 | 142 | 128 | 9 | 2 | 3 |
| 2019 | 141 | 137 | 3 | - | 1 |

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

| | 2020 £m | 2019 £m |
|----------------------|------------|------------|
| At 1 February | 2 | 3 |
| Charge for the year | 1 | 2 |
| Utilised | (1) | (3) |
| At 31 January | 2 | 2 |

Liquidity risk

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

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

At 31 January 2020:

| | Less than 1 year £m | 1 to 2 years £m | 2-5 years £m | over 5 years £m | Total £m |
|-----------------------------|---------------------------|-----------------------|-----------------|-----------------------|--------------|
| Loans and borrowings | 324 | 815 | 1,558 | 516 | 3,213 |
| Lease liabilities | 25 | 15 | 15 | 24 | 79 |
| Other payables and accruals | 74 | - | - | - | 74 |
| Deferred consideration | 1 | - | - | - | 1 |
| Trade payables | 98 | - | - | - | 98 |
| | 522 | 830 | 1,573 | 540 | 3,465 |

29 Financial risk management objectives and policies (continued)

At 31 January 2019:

| | Less than 1 year £m | 1 to 2 years £m | 2-5 years £m | over 5 years £m | Total £m |
|-----------------------------|---------------------------|-----------------------|-----------------|-----------------------|--------------|
| Loans and borrowings | 125 | 343 | 2,216 | 1,110 | 3,794 |
| Lease liabilities | 51 | 10 | 3 | - | 64 |
| Other payables and accruals | 63 | - | - | - | 63 |
| Contingent consideration | 2 | 4 | 6 | - | 12 |
| Trade payables | 79 | - | - | - | 79 |
| | 320 | 357 | 2,225 | 1,110 | 4,012 |

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

Capital management

The Group considers its capital to be a combination of Net Debt and equity.

The capital structure at 31 January 2020 can be summarised as below:

| | Expected maturity date | Interest rate % | Principal £m |
|---------------------------|------------------------|-----------------|--------------|
| Class A2 notes | 31 July 2025 | 6.27 | 500 |
| Class A3 notes | 31 July 2020 | 4.25 | 200 |
| Class A5 notes | 31 January 2022 | 2.88 | 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 |
| Total borrowings | | 4.52 | 2,767 |
| Lease obligations | | | 63 |
| Cash and cash equivalents | | | (102) |
| Total net debt | | | 2,728 |
| Share capital | | | - |
| Total capital | | | 2,728 |

At 31 January 2020, all borrowings have fixed interest rates. The weighted average interest rate for all borrowings of 4.52% has been calculated using the effective interest rate and carrying values on 31 January 2020.

The Group's objectives when managing capital are:

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

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

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 40 for further detail.

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

The weighted average interest rate for all borrowings of 4.52% has been calculated using the effective interest rate and carrying values on 31 January 2020.

29 Financial risk management objectives and policies (continued)

The Group continues to evaluate the optimal refinancing strategy of its debt maturities and coupon payments, including the A notes, B notes and Senior Term Facility. 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. The cash-generative nature of the business and the strategic priorities outlined for growth mean that we remain confident in our ability to service the interest obligations on our debt for the foreseeable future.

On 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 40), the Group announced that S&P confirmed the credit rating on the Class A Notes at BBB-.

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

| | 2020 | 2019 |
|---|--------------|-------------|
| | £m | £m |
| Class A notes | 2,197 | 2,200 |
| Less: 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 ¹⁰ | 39 | 61 |
| Net Whole Business Securitisation (WBS) Debt ² | 2,704 | 2,811 |
| IFRS 16 lease adjustment for lease obligations ³ | 24 | - |
| Net Debt | 2,728 | 2,811 |
| Trading EBITDA | 343 | 337 |
| Trading EBITDA for covenant reporting ⁴ | 340 | 337 |
| | Covenant | |
| Net Debt ratio ⁵ | 8.0x | 8.3x |
| Class B2 leverage ratio ⁶ | 8.0x | 8.3x |
| Senior Leverage ratio ⁷ | 6.2x | 6.5x |
| Class A Free Cash Flow: Debt Service ⁸ | >1.35x | 3.4x |
| Class B Free Cash Flow: Debt Service ⁹ | >1.00x | 2.5x |

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

² Net WBS Debt represents the borrowings and cash balances within the WBS structure. This includes the principal amounts of the Senior Term Facility, Class A notes, Class B2 notes and lease obligations for covenant reporting less cash and cash equivalents.

³ 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.

⁴ Trading EBITDA including discontinued operations as required by the debt documents based on frozen GAAP.

⁵ Ratio of Net Debt to Trading EBITDA.

⁶ Ratio of Net WBS Debt² to Trading EBITDA for covenant reporting⁴.

⁷ Ratio of Net Senior Secured Debt¹ to Trading EBITDA for covenant reporting⁴.

⁸ Ratio of free cash flow to proforma debt service relating to the Senior Term Facility and Class A notes.

⁹ Ratio of free cash flow to proforma debt service.

¹⁰ 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.

In order to comply with the requirements of the Class A notes, we are required to maintain the Class A free cash flow to debt service ratio in excess of 1.35x. The actual Class A free cash flow to debt service ratio as at 31 January 2020 was 3.4x (2019: 2.6x). The Class B2 notes require us to maintain the Class B2 free cash flow to debt service ratio in excess of 1x. The actual Class B2 free cash flow to debt service ratio as at 31 January 2020 was 2.5x (2019: 1.9x).

The Group includes regulated companies which are required to hold sufficient capital to meet acceptable solvency levels based on the relevant regulators' requirements. In addition, the Group is required to hold on deposit a calculated amount of 'excess cash' under the terms of its debt documents when within an accumulation period (see note 18).

29 Financial risk management objectives and policies (continued)

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

The Class A notes only permit the release of cash providing the Senior Leverage ratio after payment is less than 5.5x and providing there is sufficient excess cash flow to cover the payment. The Class B2 notes restrictions only permit the release of cash providing the Fixed Charge 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 Class A and Class B2 notes place restrictions on the Group's ability to upstream cash from the key trading companies to pay dividends and finance activities unconstrained by the restrictions embedded in the debts.

Key Cash Release Metrics

| | 2020 | 2019 |
|--|--------------|-------|
| Senior Leverage ratio ¹ | 6.2x | 6.5x |
| Excess cash flow ² | £195m | £91m |
| Fixed Charge Coverage ratio ³ | 2.6x | 2.6x |
| Consolidated net income ⁴ | £321m | £267m |

1 Ratio of Net Senior Secured Debt¹ to Trading EBITDA for covenant reporting.

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

3 Ratio of fixed finance charges to Trading EBITDA for covenant reporting.

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

30 Commitments and contingencies

Lease commitments

The Group has lease contracts for property, plant, equipment and vehicles. Future minimum lease payments under lease contracts together with the present value of the net minimum lease payments are as follows:

| | 2020 | | 2019 | |
|---|---------------------------------|------------------------|---------------------------------|------------------------|
| | Present value of payments £m | Minimum payments £m | Present value of payments £m | Minimum payments £m |
| Within one year | 23 | 25 | 49 | 51 |
| Between one and five years | 26 | 30 | 12 | 13 |
| After five years | 14 | 24 | - | - |
| Total minimum lease payments | 63 | 79 | 61 | 64 |
| Less amounts representing finance charge | - | (16) | - | (3) |
| Present value of minimum lease payments | 63 | 63 | 61 | 61 |
| Add: discounted lease liability for leases classified as operating leases in the prior year | | | 25 | 25 |
| Lease liability recognised at 1 February 2019 (see note 1.3(w)) | | | 86 | 86 |

Where a property is no longer used by the Group for operational purposes, tenants are sought to reduce the Group's exposure to lease payments. Where the future minimum lease payments are in excess of any expected rental income due, the corresponding right-of-use asset is impaired by this excess.

Upon adoption of IFRS 16, the Group's accounting treatment of leases changed from 1 February 2019 (see note 1.3(w)).

Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £10m (2019: £15m).

31 Subsidiary undertakings

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

32 Auditors' remuneration

| | 2020 £m | 2019 £m |
|---|------------|------------|
| Amounts receivable by the Company's auditors and their associates in respect of: | | |
| Audit of financial statements of subsidiaries of the Company | 1 | 1 |

The fee for the audit of these financial statements was £35,000 (2019: £10,000).

33 Related party transactions

The following tables provide the total value of transactions that have been entered into with associates and joint ventures during each financial year:

Transactions with associates:

| Associate | Nature of transaction | 2020 £m | 2019 £m |
|---------------|-------------------------------------|------------|------------|
| ARC Europe SA | Registration and call handling fees | 5 | 4 |

At 31 January 2020, the Group had an outstanding balance payable to ARC Europe SA of £1m (2019: £1m) comprising trade payables in respect of the above transactions.

Transactions with joint ventures:

| Joint venture | Nature of transaction | 2020 £m | 2019 £m |
|-----------------------------|---|------------|------------|
| AA Media Limited | Services supplied to AA Media Limited | 1 | - |
| Intelematics Europe Limited | Goods supplied by Intelematics Europe Limited | 1 | 5 |

At 31 January 2020, the Group had an outstanding balance receivable from AA Media Limited of £4m comprising fixed rate loan notes (see note 29). At 31 January 2019, AA Media Limited was a consolidated subsidiary of the Group.

At 31 January 2020, the Group had an outstanding balance payable to Intelematics Europe Limited of £nil (2019: £nil) in respect of the above transactions.

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

| Entity | Relationship | 2020 £m | 2019 £m |
|---|-------------------|--------------|--------------|
| AA Mid Co Limited | Immediate parent | 1,205 | 1,205 |
| AA plc | Indirect parent | 9 | 9 |
| AA Underwriting Insurance Company Limited | Fellow subsidiary | (48) | (34) |
| | | 1,166 | 1,180 |

Cross-company guarantees

The Company is an obligor to the bank loans and bond debt of the AA Intermediate Co Limited group. At 31 January 2020, the principal outstanding on the AA Intermediate Co Limited group debt was £2,767m (2019: £2,770m).

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

34 Compensation of key management personnel of the Group

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

Key management personnel consist of the Chief Executive Officer, Chief Financial Officer and the Executive Committee.

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

| | 2020 £m | 2019* £m |
|--|------------|-------------|
| Short-term employee benefits | 4 | 5 |
| Share-based payments (see note 35) | 1 | 1 |
| Total compensation paid to key management personnel | 5 | 6 |

*This number has been restated to remove the Non-Executive Directors as per the new definition.

35 Share-based payments

| | 2020 £m | 2019 £m |
|--|------------|------------|
| Equity-settled share-based payments: | | |
| Share-based payments – Employee Share Incentive Plan | 2 | 3 |
| Share-based payments – Performance Share Plan | 1 | 1 |
| Share-based payments – Insurance LTBP | 1 | - |
| Total equity-settled share-based payments | 4 | 4 |
| Total share-based payments expense | 4 | 4 |

Employee Share Incentive Plans

The AA plc group has an all-Employee Share Incentive Plan (ESIP). Under the ESIP, employees are able to buy Partnership shares by making weekly or monthly payments into the ESIP. In addition, for every Partnership share an employee purchases AA plc will match this on a 1:1 basis (Matching shares).

The ESIP share-based payments are equity-settled. ESIP Matching shares are issued on the 11th day of each month with a vesting period of 36 months from the date they were issued.

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

| Share type | Award date | Vesting date | No. of shares outstanding 2020 ¹ | Weighted fair value per share £ |
|---------------------------|------------|--------------|---|---------------------------------|
| FY18 ESIP Matching shares | See above | See above | 1,263,596 | 1.50 |
| FY19 ESIP Matching shares | See above | See above | 2,308,558 | 0.86 |
| FY20 ESIP Matching shares | See above | See above | 3,767,030 | 0.55 |
| Total | | | 7,339,184 | |

¹ The number of shares shown above is the estimated number.

35 Share-based payments (continued)

Performance Share Plan (PSP)

During the 2018, 2019 and 2020 financial years, awards were granted under the PSP scheme to the CEO and other members of Senior Management, with vesting conditions linked to the performance of the AA plc group and its share price.

A proportion of the PSP Awards are subject to a comparative total shareholder return (TSR) performance condition. This includes 100% of the PSP 2017 Award (due to the presence of a TSR underpin), 50% of the PSP 2018 Award and 50% of the PSP 2019 Award. The fair values of awards were calculated using a Monte Carlo simulation model to take into account the expectation at the grant date that the performance conditions will be met. The expected volatility has been calculated using historical daily data commensurate with the expected term of each award as at each grant date.

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

| | | | 2020 | 2019 | 2020 | 2019 |
|----------------|---------------------|---------------------|---------------------------------|---------------------------------|--|--|
| | Award Date | Vesting Date | No. of shares outstanding | No. of shares outstanding | Weighted fair value per share £ | Weighted fair value per share £ |
| 2017 CEO Award | 27 October 2017 | 27 October 2020 | 1,148,606 | 1,148,606 | 0.97 | 0.97 |
| 2017 Award | 11 December 2017 | 27 October 2020 | 2,286,597 | 4,019,107 | 0.75 | 0.75 |
| 2018 CEO/CFO | 7 November 2018 | 22 November 2021 | 1,950,412 | 1,950,412 | 0.86 | 0.86 |
| 2018 Award | 7 November 2018 | 22 May 2021 | 4,387,044 | 5,946,613 | 0.86 | 0.86 |
| 2019 CEO | 30 October 2019 | 29 October 2022 | 2,200,000 | - | 0.27 | - |
| 2019 Award | 30 October 2019 | 29 October 2022 | 9,958,794 | - | 0.31 | - |
| Total | | | 21,931,453 | 13,064,738 | | |

Insurance Long Term Bonus Plan (Insurance LTBP)

During the 2019 financial year awards were granted under the Insurance LTBP to certain key members of senior management of the AA plc group's Insurance businesses. These awards vest to specified threshold pound sterling values. The vesting conditions for each threshold are linked to the performance of the AA plc group's Insurance businesses. The award date for this scheme was 23 January 2019.

Awards under this scheme are accounted for as equity-settled share-based payments with vesting periods from 23 January 2019 to 31 July 2020, 2021, 2022 and 2023.

The total expected value of shares to be awarded to employees of the Group under this scheme is £1m as at 31 January 2020. The vesting charge for the current year is £1m (2019: £nil).

Lapsed share schemes

The following share schemes lapsed during the year as the vesting conditions for all classes of these awards were not met following their final testing dates:

- Management Value Participation shares (MVP shares)
- Long Term Bonus Plan (LTBP)
- Retention Award

36 Derivative financial instruments

| | 2020 £m | 2019 £m |
|------------------------|------------|------------|
| Liabilities | | |
| Forward fuel contracts | (2) | - |
| | (2) | - |

The forward fuel contracts liability is shown on a net basis as the liability is settled on a net basis. On a gross basis, the asset is £nil (2019: £nil) and the liability is £2m (2019: £nil).

37 Ultimate parent undertaking and controlling party

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

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

38 Accounting standards, amendments and interpretations

New accounting standards, amendments and interpretations adopted in the year

IFRS 16 Leases

On 1 February 2019, the Group adopted IFRS 16 'Leases', which replaced IAS 17 'Leases'. See note 1.3(w) for the impact on the financial statements. The Group has not restated comparative information for prior periods.

Aside from IFRS 16, the Group did not identify any new accounting standards coming into effect in the current year with a material impact on the financial statements.

New accounting standards, amendments and interpretations not yet adopted

A number of new standards, amendments and interpretations have been issued and will be effective for annual reports beginning after 1 February 2020 but have not been applied by the Group in these financial statements. These are set out below (effective dates are EU effective dates).

- Amendments to References to the Conceptual Framework in IFRS Standards (effective 1 January 2020).
- Definition of Material (Amendments to IAS 1 and IAS 8) (effective 1 January 2020).
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) (effective 1 January 2020).
- IFRS 17 Insurance Contracts (effective date to be confirmed).
- Definition of a Business (Amendments to IFRS 3) (effective date to be confirmed).

The Group did not identify any new accounting standards coming into effect in the financial year ending 31 January 2021 with an expected material impact on the financial statements.

39 Assets and liabilities classified as held for sale

At the year end, AA Underwriting Limited and Automobile Association Underwriting Services Limited were held for sale. Each of these subsidiary undertakings relate to insurance businesses already in run-off.

The assets classified as held for sale were:

| | 2020 £m | 2019 £m |
|---------------------------|------------|------------|
| Inventories | - | 2 |
| Trade receivables | - | 4 |
| Cash and cash equivalents | 8 | - |
| | 8 | 6 |

The liabilities classified as held for sale were:

| | 2020 £m | 2019 £m |
|---------------------------------------|------------|------------|
| Other taxes and social security costs | - | 1 |
| Accruals | - | 4 |
| | - | 5 |

At the prior year end, AA Media Limited was held for sale (see note 12).

40 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 |

40 Events after the reporting period (continued)

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-

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.

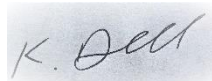
Company statement of financial position as at 31 January

| | Notes | 2020 £m | 2019 £m |
|--|-------|----------------|----------------|
| Non-current assets | | | |
| Investments in subsidiaries | 2 | 1,661 | 1,661 |
| Current assets | | | |
| Trade and other receivables | 3 | 115 | 115 |
| Total assets | | 1,776 | 1,776 |
| Current liabilities | | | |
| Trade and other payables | 4 | (1,756) | (1,756) |
| Total liabilities | | (1,756) | (1,756) |
| Net assets | | 20 | 20 |
| Equity | | | |
| Called up share capital | 5 | - | - |
| Retained earnings | | 20 | 20 |
| Total equity attributable to equity holders of the parent | | 20 | 20 |

The result for the financial year of the Company is £nil (2019: loss of £3m).

As at 31 January 2020, the Company had distributable reserves of £20m (2019: £20m).

Signed for and on behalf of the Board on 25 JUNE 2020 by:



K Dangerfield
Director

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

Company statement of changes in equity

| | Share capital £m | Retained earnings £m | Total £m |
|---------------------------|---------------------|-------------------------|-------------|
| At 1 February 2018 | - | 23 | 23 |
| Loss for the year | - | (3) | (3) |
| At 31 January 2019 | - | 20 | 20 |
| Result for the year | - | - | - |
| At 31 January 2020 | - | 20 | 20 |

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

Notes to the Company financial statements

1 Presentation of financial statements and Company accounting policies

1.1 Presentation of financial statements

AA Intermediate Co Limited (the 'Company') is a private company limited by shares, incorporated and domiciled in the UK. The address of the Company's registered office is Fanum House, Basing View, Basingstoke, Hampshire, RG21 4EA.

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

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

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 January 2020. The financial statements are prepared in sterling and are rounded to the nearest million pounds (£m).

1.2 Basis of preparation

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

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

The Company did not identify any new accounting standards coming into effect in the financial year ending 31 January 2021 with an expected material impact on the financial statements.

1.3 Accounting policies

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

a) Foreign currencies

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

Notes to the Company financial statements (*continued*)

b) Investments in subsidiaries

Investments in subsidiaries are held at cost less impairment.

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

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

c) Financial instruments

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

d) Critical accounting estimates and judgements

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

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

Investments

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

In performing its impairment testing on its investment in subsidiaries, the Company prepared a traditional value in use model as described in IAS 36 which was also used in prior years. This comprises an enterprise value model which deducts net debt as at 31 January 2020 and discounts estimates of future cash flows at a pre-tax rate reflecting the time value of money and the risk specific to these cash flows. IAS 36 considers that the appropriate discount rate for a value in use calculation should take into account weighted average cost of capital, incremental borrowing rate and other market borrowing rates in making such an estimate and the Company uses a discount rate calculated on this basis. Estimates of future cash flows do not include cash inflows or outflows from financing activities or income tax receipts or payments as these are already taken into account in the discount rate.

Notes to the Company financial statements (continued)

d) Critical accounting estimates and judgements (continued)

This differs from the AA plc company financial statements in which it was considered that applying an alternative 'dividend distribution model' would best reflect an investor's assessment of the return required given the specific industry and macroeconomic conditions and risks in existence at the year end and up to the date of approval of the AA plc financial statements. In that alternative value in use model, estimates of future cash flows were discounted at a 5-year average cost of equity of 17.0%. Cash flows included income tax receipts and payments and cash inflows and outflows from financing activities, reflecting an assessment of future refinancing and interest costs that the Group expects to arise as its existing debt is refinanced over the next 5 years. The use of this alternative value in use model was a departure from the traditional value in use model described in IAS 36 which was used by AA plc in prior years.

As the Company is a holding company within the WBS ringfence, it and its subsidiary investments do not experience the same risks as experienced at the level of AA plc's investment in AA Mid Co Limited, in particular the risks of refinancing the Group's Class B2 notes, for which the Company sits inside the security ringfence. The alternative value in use valuation approach used at an AA plc level is therefore not considered to be an appropriate valuation methodology for the Company to use in its own investment impairment testing.

On this basis, the Company has made the critical accounting judgement to continue to perform impairment testing of its investment in subsidiaries using the traditional enterprise value model which deducts net debt, as outlined above.

Management has performed sensitivity analysis as part of its impairment assessment on the Company's investments in subsidiaries (see note 2 for details).

2 Investments in subsidiaries

| | 2020 £m | 2019 £m |
|----------------------------------|--------------|------------|
| Investment in subsidiary at cost | | |
| At 1 February and 31 January | 1,661 | 1,661 |

The Company has performed impairment testing at 31 January 2020 to compare the recoverable amount of the investments in subsidiaries to their carrying value.

The impairment test was principally performed on the directly held subsidiary which is supported by cash flow projections of the underlying AA Acquisition Co Limited group. The recoverable amount of the investment was determined based on a value in use calculation using cash flow projections from the Group's three-year plan. For the year ended 31 January 2020, the Company used the three-year plan covering the three years up to 31 January 2023 and a 2.0% expectation of growth in the subsequent year. The three-year plan was adjusted to reflect estimates of certain downside risks in existence at the date of approval of the financial statements that were not reflected when the plan was approved, including the potential financial impact of COVID-19. This primarily relates to the forecast trading impacts in the year to 31 January 2021 and the consequential effects on subsequent years. For the purposes of the impairment test, terminal values have been calculated using a 2.0% (2019: 2.0%) inflationary growth assumption in perpetuity based on the IMF's UK long-term growth rate.

Using an enterprise value model which deducts net debt as at 31 January 2020, cash flows were discounted at a pre-tax rate reflecting the time value of money and the risk specific to these cash flows. This was determined as a pre-tax rate of 8.9% (2019: 9.9%). The use of this value in use calculation and the determination of its inputs were consistent with the impairment test performed in the prior year. The result of this impairment test was that there was a significant amount of headroom and therefore no indicators of impairment in the value of investments in subsidiaries were identified (2019: no indicators of impairment).

Notes to the Company financial statements (continued)

3 Trade and other receivables

| | 2020 £m | 2019 £m |
|---|------------|------------|
| Amounts owed by subsidiary undertakings | 115 | 115 |
| | 115 | 115 |

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

4 Trade and other payables

| | 2020 £m | 2019 £m |
|-------------------------------------|--------------|--------------|
| Amounts owed to parent undertakings | 1,756 | 1,756 |
| | 1,756 | 1,756 |

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

5 Called up share capital

| | 2020 £ | 2019 £ |
|---|-----------|-----------|
| Allotted, called up and fully paid | | |
| 20 ordinary shares of £1 each | 20 | 20 |
| | 20 | 20 |

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

During the year, the company did not pay a dividend (2019: £nil).

6 Auditors' remuneration

The fee for the audit of these financial statements was £35k (2019: £10k).

7 Employee costs

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

Notes to the Company financial statements (*continued*)

8 Subsidiary undertakings

All subsidiaries are wholly owned (except where stated) and incorporated and registered where stated below.

All subsidiaries are consolidated in the Group financial statements.

The principal subsidiary undertakings of the Company at 31 January 2020 are:

| Name | Country of Incorporation / Registered Office Key | Class of shares held |
|---|--|----------------------|
| AA Acquisition Co Limited ² | United Kingdom / A | Ordinary |
| AA Bond Co Limited ^{1,2} | Jersey / B | Ordinary |
| AA Corporation Limited | United Kingdom / A | Ordinary |
| AA Financial Services Limited | United Kingdom / A | Ordinary |
| AA Senior Co Limited | United Kingdom / A | Ordinary |
| A A The Driving School Agency Limited | United Kingdom / A | Ordinary |
| Automobile Association Developments Limited | United Kingdom / A | Ordinary |
| Automobile Association Insurance Services Limited | United Kingdom / A | Ordinary |
| Drivetech (UK) Limited | United Kingdom / A | Ordinary |
| Prestige Fleet Servicing Limited ⁷ | United Kingdom / A | Ordinary |
| Used Car Sites Limited | United Kingdom / A | Ordinary |

The other subsidiary undertakings of the Company at 31 January 2020 are:

| Name | Country of Incorporation / Registered Office Key | Class of shares held |
|--|--|--|
| A.A. Pensions Trustees Limited | United Kingdom / A | Ordinary |
| AA Brand Management Limited | United Kingdom / A | Ordinary |
| AA Garage Services Limited | United Kingdom / A | Ordinary |
| AA Ireland Pension Trustees DAC | Ireland / C | Ordinary |
| AA New Co Limited ³ | United Kingdom / A | Ordinary |
| AA Pension Funding GP Limited | United Kingdom / D | Ordinary |
| AA Pension Funding LP ⁸ | United Kingdom / D | Membership Interest |
| AA Underwriting Limited | United Kingdom / A | Ordinary |
| Automobile Association Holdings Limited | United Kingdom / A | Ordinary and Deferred redeemable non-voting special dividend |
| Automobile Association Insurance Services Holdings Limited | United Kingdom / A | Ordinary |
| Automobile Association Services Limited | United Kingdom / A | Limited by guarantee |

Notes to the Company financial statements *(continued)*

8 Subsidiary undertakings (continued)

| Name | Country of Incorporation / Registered Office Key | Class of shares held |
|--|--|-------------------------|
| Automobile Association Underwriting Services Limited | United Kingdom / A | Ordinary |
| Accident Assistance Services Limited ⁵ | United Kingdom / A | Ordinary |
| Breakdown Hero Limited ⁶ | United Kingdom / E | Ordinary |
| Drakefield Holdings Limited | United Kingdom / A | A and B Ordinary Shares |
| Intelligent Data Systems (UK) Limited | United Kingdom / A | Ordinary |
| Personal Insurance Mortgages and Savings Limited | United Kingdom / A | Ordinary |
| Automobile Association Protection and Investment Planning Limited ⁴ | United Kingdom / A | Ordinary |
| Prestige Car Servicing Limited ⁷ | United Kingdom / A | Ordinary |
| Prestige Motor Care Holdings Limited ⁷ | United Kingdom / A | Ordinary |
| The Automobile Association Limited ¹ | Jersey / B | Ordinary |

¹ This Company also has a UK branch establishment.

² Directly owned by AA plc; all other subsidiaries are indirectly held.

³ AA New Co Limited was incorporated on 23 October 2019.

⁴ Automobile Association Protection and Investment Planning Limited was dissolved on 3 March 2020.

⁵ Breakdown Assistance Services Limited changed its name to Accident Assistance Services Limited on 30 August 2019.

⁶ Breakdown Hero Limited was dissolved on 7 April 2020.

⁷ The AA acquired the Prestige Group on 1 February 2019.

⁸ This partnership is fully consolidated into the Group financial statements and the Group has taken advantage of the exemption (as confirmed by regulation 7 of the Partnerships (Accounts) Regulations 2008) not to prepare or file separate financial statements for this entity.

Registered Office Key

| Registered Office | Key |
|---|-----|
| Fanum House, Basing View, Basingstoke, Hampshire, RG21 4EA, England | A |
| 22 Greenville Street, St Helier, Jersey, JE4 8PX | B |
| 6th Floor, South Bank House, Barrow Street, Dublin 4, Ireland | C |
| 50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, Scotland | D |
| 90 Long Acre, London, WC2E 9RA, England | E |