AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JANUARY 2019

Registered number: 02414212

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

FOR THE YEAR ENDED 31 JANUARY 2019

STRATEGIC REPORT

The directors present their Annual Report and Financial Statements of Automobile Association Insurance Services Limited ("the Company") for the year ended 31 January 2019.

PRINCIPAL ACTIVITY, REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The Company is a wholly owned subsidiary of AA Corporation Limited.

The principal activity of the Company is the provision of insurance intermediary services. The Company is authorised and regulated as a General Insurance Intermediary by the Financial Conduct Authority (FCA).

The Company's Trading Revenue (see note 3) decreased slightly to £276.0m (2018: £277.7m) during the current year. For decision making and internal performance management, management's key performance metrics are Trading Revenue and Trading EBITDA, being earnings before exceptional items, interest, tax, depreciation and amortisation (see note 3). Trading EBITDA decreased by 8.6% to £147.0m (2018: £160.9m) during the current year.

Operating profit decreased by 11.5% to £140.6m (2018: £158.8m) during the current year. Profit before taxation decreased by 10.9% to £141.2m (2018: £158.5m) over the same period. The key driver for this decrease was the higher planned strategic opex in our people, innovation and systems.

During the year under review, the net solvency capital of the Company for regulatory purposes, represented by net assets, decreased to £296.6m (2018: £302.1m) due to the payment of a dividend of £120.0m (2018: £100.0m) partially offset by £114.5m (2018: £128.1m) profit for the year.

The directors are pleased with the performance of the Company in the year and expect the Company to continue to meet solvency requirements set by the FCA. There are currently no plans to alter the principal activities of the Company going forwards and the Company expects to continue to deliver profits while retaining its focus on high levels of customer service.

DIVIDENDS

A dividend of £120.0m was paid during the year (2018: £100.0m).

RISK MANAGEMENT FRAMEWORK

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

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

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

Unable to maintain outstanding service and market share

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.

RISK MANAGEMENT FRAMEWORK (continued)

Unable to grow the business in a manner that complements and sustains the brand

The Company is unable to develop and grow new profitable business products and lines that complement the customer experience and which demonstrate standards and values that underlie the core brand.

IT transformation is not completed successfully

An essential programme of renewal and enhancement of the IT estates is in progress to address the risks to the brand and competitive capability. The IT transformation is extensive and involves a continuing complex programme of work. Given the scale and complexity, the programme involves inherent risks to the timely delivery of this implementation. This risk is managed through progress tracking at regular Management Business Reviews.

Unable to protect ourselves from a significant data breach, cyber security incident or failure of IT infrastructure

Following an event or incident, critical information is not available where and when it is needed. The integrity of critical information is corrupted or the confidentiality of commercially sensitive, private or customer information is compromised by inappropriate disclosure. A serious data breach occurs. To manage this risk, there is an ongoing programme of security improvements to maintain a suitable level of security for the increasingly sophisticated world-wide cyber threats.

Unable to manage our debt

The Company is an obligor of the financial indebtedness of the AA Intermediate Co Limited group, a parent undertaking of the Company and part of the AA plc group. Its viability and financial success is therefore tied to the viability and financial success of the AA Intermediate Co Limited group. No material uncertainties have been identified that would cast doubt over the financial success of the AA Intermediate Co Limited group.

A changing regulatory environment may adversely affect the AA's activities

The changing regulatory environment could cause currently compliant services to become non-compliant, with material implications to customer offerings, pricing and profitability. Failure to comply with regulatory obligations could result in fines and reputational damage. To mitigate this risk, the Company continually reviews its operating practices in line with guidance from the FCA and in light of current market practices.

ON BEHALF OF THE BOARD

Janet Connor

J CONNOR
DIRECTOR
12 JUNE 2019

Registered Office: Fanum House, Basing View, Basingstoke, Hampshire RG21 4EA
Registered number: 02414212

DIRECTORS' REPORT

DIRECTORS

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

M A Clarke	(resigned 20 July 2018)
J Connor	
M S Lloyd	(resigned 25 May 2018)
C E Riley	(resigned 18 June 2018)
J C Roe	
D W Smith	
T V Holliday	(appointed 1 August 2018)
G R Kirkwood	(appointed 30 July 2018)

Company secretary

M F Millar	(resigned 17 April 2018)
M A Clarke	(appointed 9 May 2018, resigned 2 July 2018)
N Hoosen	(appointed 2 July 2018)

DIRECTORS' INDEMNITY

The Company maintains directors' and officers' liability insurance, which gives appropriate cover for any legal action brought against its directors and officers. The Company has also granted indemnities to its directors and officers against all losses and liabilities incurred in the discharge of their duties, to the extent permitted by law.

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 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 company and of the profit or loss of the 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 United Kingdom Accounting Standards, comprising FRS 101, have been followed, 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 company will continue in business.

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

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

FOR THE YEAR ENDED 31 JANUARY 2019

DIRECTORS' REPORT (continued)

DIRECTORS' CONFIRMATIONS

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

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

GOING CONCERN

The Company's business activities and its exposure to competitive risk, financial risk, credit risk, brand risk, regulatory risk, operational risk and risk of technological change are described in the strategic report on pages 1-2.

The directors believe that the Company has adequate financial resources due to the Company's own net current asset position. 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.

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

AUDITORS

Pursuant to the AA plc Group audit tender process in 2017, Ernst & Young LLP resigned as the Company's auditor following completion of their statutory and regulatory audits for the financial year ended 31 January 2018. PricewaterhouseCoopers LLP were appointed as auditors of the Company for the financial year ended 31 January 2019.

ON BEHALF OF THE BOARD

Janet Connor

J CONNOR
DIRECTOR

12 JUNE 2019

Registered Office: Fanum House, Basing View, Basingstoke, Hampshire RG21 4EA
Registered number: 02414212

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion, Automobile Association Insurance Services Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 January 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED (continued)

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

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

In light of the knowledge and understanding of the company and its 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 the financial statements set out on page 3, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED (continued)

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 financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Joanne Leeson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton
13 June 2019

INCOME STATEMENT

FOR THE YEAR ENDED 31 JANUARY

	Note	2019 £m	2018 £m
REVENUE	3	**276.1**	278.0
COST OF SALES		**(5.2)**	(6.9)
GROSS PROFIT		**270.9**	271.1
OPERATING COSTS			
Marketing and administrative expenses		**(130.3)**	(112.3)
OPERATING PROFIT	4	**140.6**	158.8
Income from joint venture	6	**0.8**	-
Finance costs	9	**(0.2)**	(0.3)
PROFIT BEFORE TAX		**141.2**	158.5
Tax expense	10	**(26.7)**	(30.4)
PROFIT FOR THE FINANCIAL YEAR		**114.5**	128.1

All income and expenditure arises from continuing operations.

There are no gains and losses other than those passing through the income statement, therefore no separate statement of comprehensive income is presented.

The accompanying notes are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 31 JANUARY

	Note	2019 £m	2018 £m
NON-CURRENT ASSETS			
Intangible assets	12	3.2	1.3
Property, plant and equipment	13	9.3	9.2
Deferred consideration	14	-	3.0
Deferred tax asset	11	0.3	0.4
Investments in subsidiaries and joint ventures	19	-	-
		12.8	13.9
CURRENT ASSETS			
Trade and other receivables	14	406.3	415.0
Cash and cash equivalents		1.5	7.7
		407.8	422.7
TOTAL ASSETS		420.6	436.6
CURRENT LIABILITIES			
Trade and other payables	15	(108.3)	(106.5)
Corporation tax		(13.8)	(27.0)
Provisions	16	(1.4)	(0.4)
		(123.5)	(133.9)
NON-CURRENT LIABILITIES			
Finance lease obligations	18	(0.1)	(0.2)
Provisions	16	(0.4)	(0.4)
		(0.5)	(0.6)
TOTAL LIABILITIES		(124.0)	(134.5)
NET ASSETS		296.6	302.1
EQUITY			
Called up share capital	17	19.0	19.0
Retained earnings		277.6	283.1
TOTAL EQUITY		296.6	302.1

Signed for and on behalf of the board of directors by:

J CONNOR
DIRECTOR

12 JUNE 2019

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 JANUARY

	Note	Share capital £m	Retained earnings £m	Total £m
At 1 February 2017		19.0	255.0	274.0
Profit for the year		-	128.1	128.1
Dividends paid		-	(100.0)	(100.0)
At 31 January 2018		**19.0**	**283.1**	**302.1**
Profit for the year		-	114.5	114.5
Dividends paid	17	-	(120.0)	(120.0)
At 31 January 2019		**19.0**	**277.6**	**296.6**

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 Presentation of financial statements

Automobile Association Insurance Services Limited is a private company limited by shares incorporated and domiciled in England and Wales. These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS101) and are presented in line with the Companies Act 2006.

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

The financial statements are prepared under the historical cost convention. The financial statements are prepared in Sterling and are rounded to the nearest £m.

2 Accounting policies

2.1 Basis of preparation

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 January 2019.

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

- IAS 1 paragraphs 10(d) and 10(f),
- IAS 1 paragraph 16 (statement of compliance with all IFRS),
- IAS 1 paragraph 38 (comparative information in respect of Property, Plant and Equipment, and Intangible Assets),
- IAS 1 paragraph 38A (requirement for minimum of two primary statements, including cash flow statements),
- IAS 1 paragraph 111 (cash flow statement information),
- IAS 1 paragraphs 134-136 (capital management disclosures),
- IAS 7 'Statement of cash flows',
- IFRS 7 'Financial Instruments Disclosures',
- IAS 8 paragraphs 30 and 31,
- IFRS 13 paragraphs 91 – 99 'Fair Value measurement',
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group,
- IAS 24 'Related party disclosures' (key management compensation).

The Company is a wholly-owned subsidiary of AA Corporation Limited and is included in the consolidated financial statements of AA plc which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

2.2 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 Company 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 Company's accounting policies and in making critical estimates. The underlying assumptions on which these judgements are based, are reviewed on an on-going basis.

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

2.2 Critical accounting estimates and judgements *(continued)*

Revenue – Administration and arrangement fee (AAF)

Since June 2015, the Company has charged a separate fee, the AAF, to reflect its role in providing intermediary mediation services to consumer customers buying roadside assistance products. Management identified two performance obligations for the AAF. Firstly, arranging the policy, which is generally deemed to be complete on inception of the policy and the associated income is recognised upfront. The second performance obligation is that related to the on-going administration associated with the policy where the revenue is spread over the life of the policy. Management have exercised judgement in allocating revenue against these two performance obligations in proportion to the costs incurred which involves a degree of estimation.

Contingent consideration (see note 14)

The consideration received in respect of the disposal of the consumer home services business is based on an agreed purchase price per policy and estimated number of polices to be renewed. Management have exercised judgement in estimating the policy renewal rate.

2.3 Significant accounting policies

a) Software and development costs

Software development expenditures on an individual project are recognised as an intangible asset when the Company 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.

b) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Such costs include costs directly attributable to making the asset capable of operating as intended. Depreciation is provided on property, plant and equipment at rates calculated to write off the costs, less estimated residual value based on prices prevailing at date of acquisition of each asset evenly over its expected useful life as follows:

Freehold properties	50 years
Leasehold	Period of the lease
Equipment and vehicles	3 – 20 years (or over the period of the lease if shorter)

The carrying value of tangible fixed assets is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

c) Investments in subsidiaries

Investments in subsidiaries are valued individually at the lower of cost less any provision for impairment. Income from investments is recognised in the Income Statement when it is receivable.

2.3 Significant accounting policies (continued)

d) Investments in joint ventures

Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Investments in joint ventures are carried in the statement of financial position at cost less impairment.

e) Revenue

Revenue is measured at the fair value of the consideration receivable less any discounts and excluding value added tax and other sales related taxes. Refunds issued for goods and services relating to the current year are netted against Trading Revenue (see note 3). Movements in the provision for duplicate cover are shown as exceptional revenue.

Commission income from third party insurers is recognised at the commencement of the period of risk on a point in time basis. Additional commission from these insurers may be earned dependent upon the underwriting results of the business insured. This income is recognised when the results of this business can be reasonably determined. Fees received under contracts with breakdown policyholders for arrangement and administration services are allocated against the related performance obligations in proportion to the costs incurred. The arrangement fees are recognised upfront and ongoing administration fees are recognised over the life of the policy.

Where customers choose to pay by instalments, the Company 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, income is recognised on a point in time basis at the point the related performance obligation is satisfied, or over time where the performance obligation is satisfied over time. This includes work which has not yet been fully invoiced, provided that it is considered to be fully recoverable.
The revenue recognition accounting policy was reviewed as part of the transition from IAS 18 to IFRS 15 and the Company determined that no change was needed.

f) Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Company, and hire purchase contracts are capitalised in the Statement of Financial Position and are depreciated over the shorter of the lease term and the assets' useful lives. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the Statement of Financial Position. The interest elements of rental obligations are charged in the Income Statement over the periods of the leases and hire purchase contracts. Rentals payable under operating leases are charged to the Income Statement on a straight-line basis over the lease term.

g) Provisions

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provision is made on a discounted basis where the time value of money is expected to be material.

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

In relation to unoccupied properties, where a decision has been made prior to the year end to vacate the property, provision is made for future rent and similar costs net of rent income expected to be received up to the estimated date of final disposal.

2.3 Significant accounting policies (continued)

h) 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 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.

i) Financial assets and liabilities

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

Trade and other 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. Amounts due from group undertakings have no repayment terms and bear no interest. They are classified as current, recognised at fair value and subsequently held at amortised cost. The Company 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.

The financial assets and liabilities accounting policy was reviewed as part of the adoption of IFRS 9 and the Company determined that no material adjustment was needed.

j) Cash and cash equivalents

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

k) Exceptional items

Exceptional items are events or transactions that fall within the operating activities of the Company and which by virtue of their size or incidence have been disclosed in order to improve a reader's understanding of the financial statements. See note 5 for further information on the nature of exceptional items.

3 REVENUE AND ADJUSTED PERFORMANCE MEASURES

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

Trading EBITDA is profit after tax on a continuing basis as reported, adjusted for depreciation, amortisation, exceptional operating items, income from joint venture, net finance costs and tax expense. Trading Revenue is revenue on a continuing basis adjusted for exceptional items.

Reconciliation of Trading Revenue to revenue

Trading Revenue is revenue on a continuing basis adjusted for exceptional items.

Revenue represents amounts receivable for goods and services provided, excluding value added tax and trade discounts. Revenue is recognised on a point in time basis at the point the related performance obligation is satisfied, or over time where the performance obligation is satisfied over time.

All revenue arises from one class of business within the United Kingdom. Revenue by destination is not materially different from turnover by origin.

		for the year ended 31 January	
	Note	**2019 £m**	2018 £m
Trading Revenue		**276.0**	277.7
Exceptional revenue provision	16	**0.1**	0.3
Total Revenue		**276.1**	278.0

Reconciliation of Trading EBITDA to operating profit

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

		for the year ended 31 January	
	Note	**2019 £m**	2018 £m
Trading EBITDA		**147.0**	160.9
Amortisation and depreciation	12,13	**(1.1)**	(1.9)
Exceptional operating items	5	**(5.3)**	(0.2)
Operating profit	4	**140.6**	158.8

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

These specific adjustments are made between the GAAP measure of operating profit and the non-GAAP measure of Trading EBITDA because Trading EBITDA is a performance measure required and clearly defined under the terms of the AA plc group's debt documents and is used for calculating debt covenants. Given the significance of the AA plc group debt, Trading EBITDA is therefore a key measure for management, enabling them to more easily and consistently track the underlying operational performance of the AA plc group and its business segments.

4 OPERATING PROFIT

Operating profit is stated after charging:

	2019 £m	2018 £m
Amortisation of owned intangible assets	**0.3**	0.9
Depreciation of owned tangible fixed assets	**0.6**	0.7
Depreciation of leased tangible fixed assets	**0.2**	0.3

Auditors' remuneration in respect of the audit of the Company's financial statements for the year ended 31 January 2019 amounted to £222,000 (2018: £197,000). The Company's auditors provided no services to the Company other than the annual audit during either the current or prior year.

5 EXCEPTIONAL OPERATING ITEMS

	2019 £m	2018 £m
Duplicate breakdown cover	**0.1**	0.3
Other exceptional operating items	**(5.4)**	(0.5)
	(5.3)	(0.2)

Exceptional revenue included a £0.1m release of provision for duplicate breakdown cover (2018: a £0.3m release of provision for duplicate breakdown cover). See note 16 for further information.

Other exceptional operating items for the current year included £1.4m Business and IT rationalisation and transformation costs, £0.1m conduct and regulatory costs, £1.4m customer compensation costs and £2.5m recharge of group exceptional costs.

Other exceptional operating items for the year ended 31 January 2018 included £4.5m restructuring costs, £0.1m release of vacant property provision, £1.7m recharge of group exceptional costs and £5.6m profit on disposal of Consumer Home Emergency Services business, which is part of the Home Emergency Services business and did not meet the definition of a 'discontinued operation' under IFRS 5.

6 INCOME FROM JOINT VENTURE

	2019 £m	2018 £m
Dividends from joint venture	**0.8**	-
	0.8	-

Dividends received from the investment in AA Law Limited were £0.8m (2018: £nil).

7 STAFF COSTS

Staff costs during the year were as follows:

	2019 £m	2018 £m
Wages and salaries	**49.4**	59.5
Social security costs	**4.6**	4.8
Other pension costs	**4.4**	4.3
	58.4	68.6

Staff costs relate to those recharged from Automobile Association Developments Limited, a fellow group company.

The average number of employees directly employed during the year was nil (2018: nil).

8 DIRECTORS' REMUNERATION

	2019 £m	2018 £m
Aggregate remuneration in respect of qualifying services	**1.4**	1.7
Contributions to money purchase schemes	**0.1**	0.1
Compensation for loss of office	**-**	-
	1.5	1.8
The amounts paid in respect of the highest paid director were as follows:		
Remuneration	**0.5**	0.5
Contributions to money purchase schemes	**-**	0.1
	0.5	0.6

The directors' remuneration costs for C E Riley, D W Smith, M S Lloyd, J C Roe and T V Holliday for their services as directors are borne by the entity.

The director remuneration costs for J Connor for her services as director are borne by a fellow subsidiary.

All other directors of the Company are also directors of the ultimate parent undertaking (AA plc) and/or fellow subsidiaries. These directors are remunerated by another company that is part of the AA plc group. As the directors do not believe that it is practicable to apportion this amount between their services as directors of the Company and their services as directors of the ultimate parent undertaking and fellow subsidiary companies, their full remuneration has been reflected in the disclosure above.

Retirement benefits are accruing for no (2018: 1) directors under a defined benefit scheme and 2 (2018: 2) under a money purchase scheme.

9 FINANCE COSTS

	2019 £m	2018 £m
Other interest payable	**0.2**	0.3
	0.2	0.3

10 TAX EXPENSE

The major components of the income tax expense are:

	2019 £m	2018 £m
Current tax:		
- Current tax on income in the year	**26.7**	30.3
- Adjustments in respect of previous years	**(0.1)**	(0.1)
	26.6	30.2
Deferred tax:		
- Origination and reversal of temporary differences	**0.1**	0.2
	0.1	0.2
Total tax expense	**26.7**	30.4

The current tax includes £22.6m (2018: £20.2m) in respect of payments for group losses.

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

	2019 £m	2018 £m
Profit before tax	**141.2**	158.5
Tax at rate of 19.0% (2018: 19.2%)	**26.8**	30.4
Effects of:		
Permanent differences	**-**	0.1
Adjustments to tax charge in respect of previous years	**(0.1)**	(0.1)
Income tax expense reported in the income statement	**26.7**	30.4

11 DEFERRED TAX ASSET

Deferred tax by type of temporary difference:

	Statement of financial position		Income statement	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Decelerated capital allowances	**0.2**	0.5	**0.3**	0.2
Other short term temporary differences	**0.5**	0.3	**(0.2)**	-
Capital gains rolled over	**(0.4)**	(0.4)	**-**	-
Deferred tax asset	**0.3**	0.4	**0.1**	0.2

	£m
Deferred tax asset as at 1 February 2018	0.4
Tax expense recognised in the income statement	(0.1)
Deferred tax asset as at 31 January 2019	**0.3**

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

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

12 INTANGIBLE ASSETS

	Software
	£m
Cost	
At 1 February 2018	14.4
Additions	2.2
Disposals	(6.8)
At 31 January 2019	**9.8**
Accumulated amortisation	
At 1 February 2018	13.1
Charge for year	0.3
Disposals	(6.8)
At 31 January 2019	**6.6**
Net book value	
At 31 January 2019	**3.2**
At 31 January 2018	1.3

Within software £2.4m (2018: £0.7m) relates to assets under construction that are not amortised. Software additions comprise £0.7m (2018: £0.7m) in relation to internally developed assets and £1.5m (2018: £0.1m) in respect of separately acquired assets.

13 PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £m	Leasehold £m	Equipment and vehicles £m	Total £m
Cost				
At 1 February 2018	14.0	-	7.1	21.1
Additions	-	0.8	0.1	0.9
Disposals	-	-	(2.2)	(2.2)
At 31 January 2019	**14.0**	**0.8**	**5.0**	**19.8**
Accumulated depreciation				
At 1 February 2018	6.9	-	5.0	11.9
Charge for year	0.3	-	0.5	0.8
Disposals	-	-	(2.2)	(2.2)
At 31 January 2019	**7.2**	**-**	**3.3**	**10.5**
Net book value				
At 31 January 2019	**6.8**	**0.8**	**1.7**	**9.3**
At 31 January 2018	7.1	-	2.1	9.2

Equipment and vehicles include the following assets held under finance leases:

	2019 £m	2018 £m
Cost	**0.8**	0.8
Accumulated depreciation	**(0.6)**	(0.5)
Net book value	**0.2**	0.3

14 TRADE AND OTHER RECEIVABLES

	2019 £m	2018 £m
Current		
Trade receivables	**88.4**	83.4
Amounts owed by group undertakings	**312.8**	325.1
Deferred consideration	**3.0**	3.0
Other receivables	**0.4**	0.9
Prepayments	**1.3**	0.4
Contract assets	**0.4**	2.2
	406.3	415.0
Non-current		
Deferred consideration	**-**	3.0

Amounts owed by group undertakings all relate to undertakings within the AA Intermediate Co Limited group. The balances are unsecured, have no repayment terms and bear no interest.
Included in trade receivables are amounts of £76.9m (2018: £73.8m) relating to amounts due from insurance broking customers.

14 TRADE AND OTHER RECEIVABLES (continued)

Included within current and non-current assets is £3.0m (2018: £3.0m) and £nil (2018: £3.0m) respectively relating to deferred consideration following the disposal of the consumer home services business. The consideration is contingent on the policy renewal rate. It is calculated based on the number of policies renewed within 14 months from the sales of the business and the agreed purchase price per policy. Under the disposal agreement, the Company is to transfer all its consumer home services policies to the buyer. If the number of renewed policies at the agreed purchase price per policy exceeds £6.0m, the buyer will pay the additional purchase price to the Company. If it is below £6.0m, the Company will repay the buyer the difference in purchase price.

15 TRADE AND OTHER PAYABLES

	2019 £m	2018 £m
Trade creditors	**62.0**	67.9
Amounts owed to group undertakings	**17.5**	10.5
Accruals	**9.0**	8.5
Deferred income	**16.3**	17.6
Other taxation and social security	**2.5**	1.5
Other creditors	**1.0**	0.4
Obligations under finance leases and hire purchase contracts (note 18)	**-**	0.1
	108.3	106.5

Included in trade creditors are amounts of £62.0m (2018: £61.5m) relating to amounts due to underwriters external to the AA plc group in respect of insurance broking activities.

Included in amounts owed to group undertakings are amounts of £17.5m (2018: £10.5m) relating to amounts due to underwriters within the AA plc group in respect of insurance broking activities.

16 PROVISIONS

	Other provisions £m	**Vacant property provisions £m**	**Restructuring provisions £m**	**Duplicate breakdown cover £m**	**Total £m**
At 1 February 2017	-	0.6	-	2.4	3.0
Provision utilised	-	(0.1)	-	(2.0)	(2.1)
Released unutilised during the year	-	-	-	(0.3)	(0.3)
Charge for the year	-	-	0.2	-	0.2
At 31 January 2018	**-**	**0.5**	**0.2**	**0.1**	**0.8**
Provision utilised	-	(0.1)	(0.2)	-	(0.3)
Released unutilised during the year	-	-	-	(0.1)	(0.1)
Charge for the year	1.4	-	-	-	1.4
At 31 January 2019	**1.4**	**0.4**	**-**	**-**	**1.8**
Current	1.4	-	-	-	1.4
Non-current	-	0.4	-	-	0.4
At 31 January 2019	**1.4**	**0.4**	**-**	**-**	**1.8**
Current	-	0.1	0.2	0.1	0.4
Non-current	-	0.4	-	-	0.4
At 31 January 2018	**-**	**0.5**	**0.2**	**0.1**	**0.8**

16 PROVISIONS (continued)

The property leases provision primarily relates to dilapidations. These sums are mainly expected to be paid out over the next 10 years. The provision has been calculated on a pre-tax discounted basis.

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

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

In the 2017 financial year, the AA plc group became aware that there was some duplication of roadside assistance cover taken by a limited number of business-to-business customers who were personal members and who also held AVAs (added value accounts) with the Group's banking partners. Whilst some were unaware that they had duplicate cover, others chose to maintain this to receive the benefits of membership. Through the review of data for the new customer relationship management systems, the Group identified a group of customers for whom the benefit of holding both forms of cover was not clear. The Group proposed a programme of remediation for them which has the support of the regulatory authority. During the 2018 financial year, £2.0m was paid out in respect of premiums previously paid for breakdown cover and interest payable on those premiums while £0.3m was released. The remaining amount of £0.1m was released during the 2019 financial year.

17 CALLED UP SHARE CAPITAL

Allotted, called up and fully paid	**2019** **£m**	2018 £m
19,000,000 (2018: 19,000,000) ordinary shares of £1 each	**19.0**	19.0

As at 31 January 2019, the Company had distributable reserves of £277.2m (2018: £280.4m).

During the year, a dividend of £120.0m (2018: £100.0m) was paid to the parent entity, AA Corporation Limited, at 6.3p (2018: 5.3p) per qualifying ordinary share.

18 GUARANTEES AND COMMITMENTS

Operating leases

There are no future rentals payable under non-cancellable operating leases as at 31 January 2019 (2018: £nil).

18 GUARANTEES AND COMMITMENTS (continued)

Finance lease obligations

The Company has finance lease contracts for various items of equipment and vehicles. Future minimum lease payments under finance lease contracts together with the present value of the minimum lease payments are as follows:

	2019		2018	
	Present value of payments £m	**Minimum payments £m**	Present value of payments £m	Minimum payments £m
Within one year	-	-	0.1	0.1
Between one and five years	**0.1**	**0.1**	0.2	0.2
Total minimum lease payments	**0.1**	**0.1**	0.3	0.3
Less amounts representing finance charge	-	-	-	-
Present value of minimum lease payments	**0.1**	**0.1**	0.3	0.3

At the year end, the Company had capital commitments of £1.7m (2018: £0.2m).

Cross company guarantees

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

The covenants governing the bank loans and bond debt of the AA Intermediate Co Limited group place restrictions on the group's ability to distribute cash from the key trading companies to pay external dividends and finance activities unconstrained by the restrictions embedded in the debts. We do not anticipate the bank loans or bond debt being called upon in the 12 months after the signing of this accounts.

19 GROUP UNDERTAKINGS

The carrying value of investments in subsidiaries and joint ventures is £nil (2018: £nil). All subsidiaries are wholly owned and incorporated and registered where stated below. Except where otherwise stated, the share capital of each subsidiary consists of only ordinary shares.

Name	Country
Drakefield Holdings Limited [1,2]	United Kingdom
Drakefield Insurance Services Limited[2]	United Kingdom

[1] Directly owned by Automobile Association Insurance Services Limited, all other subsidiaries are indirectly held. Drakefield Holdings Limited has A and B ordinary shares.

[2] Company registered office: Fanum House, Basing View, Basingstoke, Hampshire, RG21 4EA, England

Joint ventures

Name	Country	Nature of business
AA Law Limited (49% interest held)[3]	United Kingdom	Insurance services

[3] The Company exercises joint control with Lyons Davidson LLP over AA Law Limited through its equal representation on the Board. AA Law Limited has A and B ordinary shares.

20 ULTIMATE PARENT UNDERTAKING AND ULTIMATE CONTROLLING PARTY

The Company is a wholly owned subsidiary of AA Corporation Limited, a Company registered in England and Wales and a wholly owned indirect subsidiary of AA Intermediate Co Limited. AA plc is the ultimate controlling party and parent undertaking.

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

Copies of the consolidated parent financial statements are available from the website www.theaaplc.com/investors.