

AA

Resilience, investment & innovation

AA plc Annual Report
and Accounts 2019

Co. No. 5149111



OUR INVESTMENT CASE

We have strong fundamentals upon which to build a better AA and deliver sustainable returns.

A highly trusted commercial brand

The AA has one of the most widely recognised and trusted brands in the UK, building on more than 113 years of service and innovation.

Strong cash generation

The majority of our customers pay for our services in advance so that virtually all of our profits convert to operating cash flow.

Market leadership

The AA is by far the largest roadside assistance provider with c.40% share of the UK consumer market and c.50% share of the business-to-business (B2B) market. We have a growing Insurance business and are well placed to capture market share through our proprietary data, strength of brand and scale.

[READ MORE AT-A-GLANCE P6](#)

Opportunity for digital transformation

We are at the forefront of digital development and innovation in our sector with the potential to transform the services we deliver and the experience our members and customers receive.

[READ MORE OUR STRATEGY P17](#)

13m

personal members and business customers

[READ MORE OUR PERFORMANCE P26](#)

High barriers to entry

Our scale, proprietary deployment system, approach to innovation and high levels of customer service pose significant barriers to entry for our competitors.

Excellent standards of service delivery

We have more patrols than our competitors, with excellent training, equipment and technology providing the UK's premium roadside assistance service.

[READ MORE OUR STRATEGY P17](#)

Making Britain's driving life better

Since its inception in 1905, the AA has innovated and been at the forefront of providing the UK motorist with a reliable, trusted, premium roadside assistance service. From its beginnings as a membership organisation for motoring enthusiasts, the AA today continues to be the market leader in the roadside assistance market with a strong and growing insurance business.

Under our new strategy, we are making the investments required to reposition the business as a digital led membership organisation capable of delivering exciting products and services that truly make Britain's driving life better.

FINANCIAL HIGHLIGHTS

Revenue

£979m

2018: £960m

Trading EBITDA¹

£341m

2018: £391m

Operating profit

£219m

2018: £307m

Interest cover²

2.6x

2018 £2.8x

Profit before tax

£53m

2018: £141m

Profit after tax

£42m

2018: £111m

Basic EPS

6.9p

2018: 18.2p

Adjusted basic EPS¹

14.9p

2018: 21.8p

Net debt

£2.7bn

2018: £2.7bn

Free cash flow to equity¹

(£22m)

2018: (£5m)

Net decrease in cash and Cash equivalents

(£34m)

2018: (£61m)

Total announced dividend per share

2p

2018: 5p

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THE ROAD AHEAD

Last year, we introduced our new strategy putting service, data and innovation at the heart of the AA. This will enable us to innovate and grow Roadside and accelerate growth in Insurance.

The right plan for today

We will deliver our strategy in three phases as we test and iterate new digital propositions and build our insurance offering. It will be underpinned by improving our operations, service and culture. By phase three, we will fully utilise our data and digital offering to deliver connected, integrated Roadside and Insurance propositions that will be truly differentiated and will look to capture more of the car ownership value chain.

[READ MORE CHIEF EXECUTIVE OFFICER'S REVIEW P14](#)

and the best people

Hiring the best people and nurturing a high-performance culture are essential to the successful delivery of our strategy. We made several key hires during the year and implemented a number of operational initiatives to create a healthy, collaborative and inclusive environment for all our people.

[READ MORE OUR STRATEGY P17](#)

To secure our future

Our vision for the future is simple, it's a commitment to making Britain's driving life better. Our investments in our service, data and innovation combined with the strength of our brand, scale and commitment to partnerships will help deliver this.

[READ MORE OUR STRATEGY P17](#)

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

Building resilience and delivering value

I am confident that under Simon Breakwell's leadership we have the right strategy and team in place to meet the challenge of restoring shareholder value and returning the business to growth.

John Leach

Chairman

We began FY19 by announcing our new strategy building on two critical things, first the fundamental strengths of this business and its brand, and second, on the good work that has been done since the IPO. Through disciplined investment in our people, service and innovation, our plan will deliver growth in Roadside and accelerate growth in Insurance.

We recognise that an important facet of building trust again is being able to deliver on our commitments and meeting these on a consistent basis. I am proud to say that we are on the right path to achieving this, having met our guidance for Trading EBITDA in FY19. Our results, while significantly down from last year, reflect the deliberate decision by the Board to invest in additional strategic opex and position the AA as the pre-eminent membership services organisation.

We made several key hires, strengthened our management team and simplified our reporting lines in the year to promote greater transparency, collaboration and speed of execution, all critical focus areas for our business. In line with our strategy, we now report our performance across two core segments. Roadside is led by Gareth Kirkwood, Managing Director of Roadside Services; Insurance is led by Janet Connor, Managing Director of Insurance. Working closely with Gareth and Janet is James Frost, Chief Innovation Officer who joined in October to lead all product innovation and marketing efforts across both segments.

The demand for our Roadside Assistance services remains as relevant today as it was over a century ago. The extreme weather conditions during the first half of the year led to breakdowns being 3% higher than the average over the last 5 years. Despite this, we continued to deliver outstanding customer service and were pleased to be the outright winner of What Car? breakdown provider in 2018 and to be recognised by Which? as the only breakdown assistance provider in 2018 to receive a 5 star rating for 'repair at roadside'.

A consequence of the additional demand for our services during the first half of the year was increased reliance on third-party garaging which in turn led to additional costs for the business. This accelerated our programme of investment in the front line and we were pleased to have exceeded our target of recruiting an additional 65 patrols and more than 200 contact agents ahead of plan. The additional recruitment, alongside other initiatives we have in the pipeline, including broadening our range of services to cover vehicle service, maintenance and repair and better managing peak demand through digital channels, means that over the long term we will be better able to make significant savings and grow profitably.

In B2B, we retained or extended all our key contracts including Lloyds Banking Group (LBG), the largest roadside assistance contract in the UK and a pan-European wide contract with Ford leveraging our partnership with ARC Europe Group. In addition, we also won a three-year contract with Arval following a competitive tendering process, a significant win for the AA in the Fleet and Leasing sector. The contract renewals, extensions and wins are a strong endorsement of our strategy and a testament to the value of our operational scale, service excellence and breadth of innovative customer solutions we can bring to our B2B partners and personal members.

Solid operational performance across Roadside and Insurance

We made good progress with building a fit for the future tech estate in FY19, including CATHIE, our new membership IT system. As part of the programme of installation, we launched our new digital sales journeys, completed the delivery of renewal capabilities and started the migration of existing members in Q4 FY19. It is a complex process to migrate policies, therefore, we will continue this into FY21 in order to minimise risk to our business and members. The investments in the already deployed Pega Marketing, CRM system, Stay AA and breakdown app, together with the continued migration of older policies will give us important capabilities to improve retention performance, return our membership base to growth and drive cost reduction.

During the year, we invested in developing and launching many new improvements to our digital offering including the connected car proposition. In FY20, we shall be launching our Smart Breakdown membership through which we will roll-out our award-winning Car Genie product to new members. We have an exciting range of new digital products and services lined up in FY20 and beyond which will help position the AA at the forefront of car ownership solutions for our members and customers.

Our Insurance division performed strongly in the year supported by the ongoing investments in the broker and our in-house underwriter. We grew the motor book by 16% and also successfully grew the home book by 1.5%. The upfront cost of acquiring new policies will result in a short term reduction to profitability but will ensure our insurance business builds scale and delivers long-term profitable growth.

A notable highlight in FY19 was the early refinancing we completed in July 2018. Through our disciplined and proactive approach to managing our capital structure we successfully executed the refinancing at an opportune time in the credit cycle and extended the effective maturity of our debt to just under four years. We have no near-term refinancing requirement until January 2022 and importantly have the runway in place to deliver on our plans for profitable growth that will enable us to reduce our debt leverage. Our long-term ambition remains to reduce our net debt to EBITDA ratio to between 3 to 4 times.

Governance

We have worked hard to improve the Company's governance, rebalance the skills and expertise on the Board and ensure it remains in line with best practice. During the year, we were delighted to announce the appointments of three new Non-Executive Directors (NEDs); Cathryn Riley, Steve Barber and Mark Brooker, and welcomed Nadia Hoosen as Group General Counsel and Company Secretary, succeeding Mark Millar. We also announced the departure of Andrew Miller who stepped down as a NED at the AGM on 7 June 2018. On behalf of the Board, I would like to thank Andrew and Mark for their valued contributions over many years of service.

Shareholder engagement

We are committed to active engagement with all our shareholders on a range of matters including ensuring our remuneration policies are fully aligned with best practice and delivery of our strategy. A comprehensive consultation process was undertaken between May and November 2018 to obtain and incorporate the views of the Company's major shareholders in respect of the performance conditions relating to the

remuneration policy approved by our shareholders at the 2018 Annual General Meeting (AGM) (the 'Awards'). Following the consultation, the Company is satisfied that the Awards are aligned with the delivery of the Company's strategy and provide the right level of incentive for the management team. Further details are set out on page 72 of the Directors' Remuneration Report.

Dividend

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

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

Our Values

Our Company Values are based on five key principles of Courtesy, Collaboration, Care, Dynamism and Expertise. These underpin all that we are and that we do at the AA. We have integrated all aspects of our Values into our business model and the development of our Corporate Responsibility framework which puts People, Safety and Environment at its core.

We are committed to supporting diversity and ensuring that we promote the development of our people from across our operations including women appointed to senior management positions. We are supportive of the aims of the Hampton-Alexander Review and have this year provided additional details on gender diversity. We are pleased to have an Executive Committee that consists of 33.3% women, and we have 25% of women on the Board. The AA's total workforce is 32% female with 30% of managerial positions filled by women and this gender imbalance is the principal reason for the AA's gender pay gap. There is a national shortage of qualified and experienced women in technical roles in the automotive sector and this is reflected at the AA with a higher proportion of men who are patrols. However, we are focused on improving diversity and are taking action to improve gender equality, especially at senior levels.

The results from our first employee survey last year highlighted that as a leadership team we need to work harder to communicate better with all our employees and do more to promote development, recognition and collaboration across the organisation. This will take time to achieve; however, we are making good progress as highlighted by the results of the recent snapshot survey that was completed in Q4 2018 (please see page 42 for further details). We will be running the employee survey annually and we will share the results with all our employees and involve them in the ongoing action planning process.

On behalf of the Board I would like to thank all the AA teams for their sterling work and commitment this year, a year in which we announced our new strategy and made several organisational changes which put extra demand on everyone to work harder. They did, and we deeply appreciate it.

The way forward

Looking ahead, FY20 will be a busy year for us as we look to make further investments in our Roadside and Insurance businesses to deliver a differentiated membership services proposition that moves beyond roadside assistance to one that truly makes Britain's driving life better.

John Leach
Chairman

2 April 2019

What we do

In line with our strategy, we report our segmental performance across two core segments, Roadside and Insurance. Roadside consists of our Roadside Assistance and Driving Services businesses. Insurance consists of our Insurance Services (including Financial Services) and Insurance Underwriting businesses.

Roadside

We are the UK's leading provider of roadside assistance, with approximately 3,000 patrols attending an average of around 10,000 breakdowns daily. Driving Services comprises our market-leading driving schools, AA Driving School and BSM, and DriveTech, the market leader in driver education including Driver Awareness courses which are offered by police forces.

Insurance

The AA's insurance broker focuses primarily on motor and home policies, operating a diverse panel of underwriters including our in-house underwriter. It includes our Financial Services partnership with the Bank of Ireland and the transition period ending 2020 for our Home Emergency Services business which we have now sold. We launched our in-house underwriter in January 2016 and underwrite both motor and home policies.

Trading revenue

£841m

2018: £814m

Personal members

3.21m

2018: 3.29m

Driving instructors

2,412

2018: 2,742

Trading revenue

£138m

2018: £145m

Insurance policies

1.6m

2018: 1.4m

Financial Services products

112,000

2018: 142,000

Trading EBITDA

£283m

2018: £320m

Business customers

9.8m

2018: 9.9m

DriveTech police contracts

12

2018: 11

Trading EBITDA

£58m

2018: £71m

Underwritten policies

598,000

2018: 407,000

READ MORE BUSINESS PERFORMANCE P26

OUR BUSINESS MODEL

The UK's pre-eminent membership services organisation

Our business relies on critical inputs which we manage based on the strategic priorities of the Group. These are underpinned by our core values of Courtesy, Collaboration, Care, Dynamism and Expertise.

We aim to differentiate ourselves from our competitors by our leading brand and market position, excellent standards of service, strategic investments in our digital proposition and by training and developing the best people.

We generate value through our high recurring and cash generative Roadside and Insurance businesses.

CRITICAL INPUTS

- > People
- > Brand
- > Intellectual property and data
- > Technology
- > Financial resources

VALUES

- > Courtesy
- > Collaboration
- > Care
- > Dynamism
- > Expertise

BUSINESS AREAS

Roadside

Insurance

OUTPUTS

Shareholders

Total shareholder returns including dividends

- > Earnings per share 6.9p
- > Total announced dividends per share 2.0p

Customers and society

- > Premium membership organisation
- > Job creation
- > Tax revenue

OUR STRATEGY

- 1 - Growth through innovation in Roadside
- 2 - Accelerated growth in Insurance
- 3 - Operational and service excellence
- 4 - A high performing culture

Roadside

WHAT WE DO AND HOW WE COMPETE

Personal membership

We provide breakdown cover for our consumer members. Vehicle-based policies cover only a specific vehicle and personal memberships cover one or more individuals, including families, regardless of the vehicle.

Competitive landscape

The roadside recovery market has seen steady expansion in recent years fuelled by a growing car parc and a relatively buoyant economy. The market has grown in value to £1.78bn in 2018, representing an increase of 21% since 2013. The market however remains mature and increasingly competitive. The sector is dominated by three major players, of which the AA is the largest. Our competitive advantage is based on quality of service, brand consideration and distribution platform as well as digital capability. New trends are emerging which the AA is well placed to take advantage of, given our leading market position, our technology and developing connected car propositions.

The AA is the market leader with c.40% of the consumer market, followed by RAC and Green Flag.

Business to business

For our c.10m business (B2B) customers, breakdown cover is provided by manufacturers for new cars for an average of three years, by banks for premium added value account holders (AVAs), or by managers of fleets and vehicle leasing companies. However, the service is delivered by the AA. The majority of these are pay-for-use contracts.

Competitive landscape

The business-to-business roadside assistance market earns lower margins but, as these contracts are sophisticated in their specification, barriers to entry are high and our leading position is based on our high service levels, strong partnerships, digital capability and ability to deliver innovative value-adding solutions to our partners.

The AA has c.50% of the manufacturer segment, over 60% of the UK's largest fleet and leasing companies and around 50% of the banking AVA segment.

Driving Services

Our Driving Services business consists of our Driving Schools and DriveTech businesses. The Driving School's business offers franchises to qualified driving instructors under the AA Driving School and British School of Motoring (BSM) brands. The DriveTech business offers training for occupational drivers and drivers who have committed driving offences.

Competitive landscape

The UK driving schools market is highly competitive and fragmented, but we have approximately 6% of this market. Our main competitors are Red and Bill Plant.

In relation to the DriveTech business, the AA has strong positions in both fleet and police markets. Our main competitor in this market is TTC. In the fleet market, the AA is market leader and has a range of smaller competitors who compete primarily on price.

REVENUE MODEL

Consumer Roadside Assistance fees are principally paid through annual or monthly subscriptions. Additional revenue is available from cross-selling (selling other services) or up-selling (selling higher value products and services) following a breakdown.

Performance indicators

- > Paid personal members 3.21m (FY18: 3.29m)
- > Average income per member £162 (FY18: £157)

B2B fees are either set per breakdown or per vehicle. The average tenure of the contracts varies ranging from three to five years.

We are working on a broad range of innovative solutions with our B2B partners, including onward mobility solutions and roll-out of our award-winning app which combined with our technical know-how will enable our partners to improve their offering to end customers while generating additional revenue for the AA.

Performance indicators

- > Business customers 9.8m (FY18: 9.9m)
- > Number of breakdowns attended 3.73m (FY18: 3.68m)

The AA and BSM driving schools' revenue derives from franchise fees from instructors for use of branded cars and the AA's digital booking system. The cars are funded by the AA under a finance lease arrangement. We also provide training for driving instructors.

In relation to the DriveTech business, our driver training services are delivered under long-term service contracts.

Performance indicators

- > Franchised driving instructors 2,412 (FY18: 2,742)

MANAGING OUR RISKS

Roadside Assistance is a discretionary product for consumers; however, our sales process is regulated as it is bought by consumers as insurance. We actively manage risk through our Risk Management Framework which covers the following areas:

- > Member satisfaction levels and good member outcomes
- > Changes to the regulatory and fiscal environment
- > Competition from lower priced competitors
- > Information security, cyber crime and data management

Find out more on **P26**

Roadside Assistance is provided with warranties for new vehicles, leased vehicles and fleets. It is provided as part of benefits packages for banks' Added Value Account holders. We actively manage risk through our Risk Management Framework which covers the following areas:

- > Partner satisfaction levels
- > Competition
- > Information security, cyber crime and data management

Find out more on **P26**

We actively manage our risks through our Risk Management Framework. Within Driving Schools, this covers the following areas:

- > Customer satisfaction levels
- > Competition from lower priced competitors
- > Information security, cyber crime and data management

Find out more on **P26**

Insurance

WHAT WE DO AND HOW WE COMPETE

Broking

The AA's insurance broking business serves both personal members and non-members selling primarily motor and home insurance. These policies are underwritten by a panel of underwriters, including the AA's in-house underwriter.

Competitive landscape

The market competes largely on the price of premiums. This is particularly true of the 75% of motor insurance sales which are through price comparison websites (PCWs). While our brand consideration is ranked high in motor insurance, price dominates, and we have turned around our motor policy book as a result of our improved price competitiveness.

In home insurance, PCWs are less dominant, in part because home specifications vary more and home insurance is less expensive than motor which reduces churn.

We currently have a small share in the motor and home insurance markets but have plans to accelerate growth through our new strategy. Our competitors include Hastings and Direct Line Group.

Underwriting

The AA's in-house underwriter launched motor policies in January 2016 followed by home policies in August 2016. As part of the AA Group, we utilise our extensive proprietary data as appropriate to hone our pricing. This enables us to price more competitively which supports the broker's AA for consumers using loans to ability to win more business. We are now underwriting 46% of our motor broker policies and 31% of our home broker policies.

Our underwriter has grown rapidly and is in profit with a combined operating ratio (COR) below (and therefore ahead of) our target of 95%.

Competitive landscape

Underwriters compete primarily on price. The CORs in this underwriting market are just under 100% (thus earning single digit margins) and the integrated model means that our underwriter drives our higher broker volumes which generate better margins.

Financial Services

We launched our partnership with the Bank of Ireland in 2015 to provide savings, loans, credit cards and mortgages on a matched-book basis. We have seen strong growth in our personal loan book, driven by the relevancy of the competitively which supports the broker's AA for consumers using loans to purchase cars. Our credit card products have been more challenged, due to the loss of interchange fees and a very competitive market driving very long 0% interest promotional periods.

Competitive landscape

The combination of the AA's brand and distribution platform and the Bank of Ireland's expertise in service delivery gives our partnership a competitive advantage. We expect to grow our book over the life of our ten-year agreement with the Bank of Ireland.

Our main competitors are Virgin Money, Tesco and the High Street Banks.

REVENUE MODEL

As an insurance broker, the AA acts as an intermediary between those seeking insurance cover and the insurance underwriters. The AA has the ability to earn commission on new business sales and renewing policies as well as income from add-ons and premium finance.

Performance indicators

- > Total motor and home policies 1.6m (FY18: 1.4m)
- > Average income per motor and home policy £69 (FY18: £74)

The underwriter retains 20% of gross written premiums after coinsurance and reinsurance. The in-house underwriter is required to maintain certain levels of solvency capital and as at 31 January 2019, our solvency capital was £17m.

Performance indicators

- > Policies underwritten 598,000 (FY18: 407,000)

Investment into our partnership to drive growth is ongoing. When the partnership starts generating profits, these will be shared 50/50.

Performance indicators

- > Financial Services products 112,000 (FY18: 142,000)

MANAGING OUR RISKS

Broking is regulated by the Financial Conduct Authority (FCA). We manage our risk through our Risk Management Framework which covers:

- > Customer satisfaction levels and good customer outcomes
- > Changes to the regulatory and tax environment
- > Information security, cyber crime and data management

Find out more on **P27**

Underwriting is regulated via The Gibraltar Financial Services Commission (GFSC). We manage our risk through our Risk Management Framework which covers:

- > Changes to the regulatory and tax environment
- > Information security, cyber crime and data management
- > Solvency capital

Find out more on **P27**

The Financial Services business is subject to regulation by the FCA. The Bank of Ireland undertakes the principal regulated activities.

Find out more on **P27**

MARKET CONTEXT

Embracing emerging trends in

Roadside assistance

Since its inception in 1905, the AA has innovated and been at the forefront of providing the UK motorist with a reliable, trusted, premium roadside assistance service. From its beginnings as a membership services organisation for motoring enthusiasts, the AA today is the market leader in both the consumer and business roadside assistance markets.

We have embraced many technological innovations in the automotive sector over the years and have successfully continued to evolve and lead the market without compromising our commitment to service excellence and core values of Courtesy, Collaboration, Care, Dynamism and Expertise.

In addition to technological change over the past quarter of a century, we have seen the growth of lower-margin roadside assistance operators who rely on third-party service providers. While a lower cost alternative compared to the AA, third-party service providers are less capable of delivering the high roadside repair rates and levels of customer satisfaction that our strong network of patrols, who are fully trained by the AA, can offer.

We believe that by remaining true to our core values and embracing technological change, we can continue to operate at the premium end of the market and reshape the AA as a digitally-led roadside assistance service provider with a strong and growing insurance business.

We monitor a range of emerging trends in the roadside assistance market as detailed in this section of the report. Although these are considered individually, we adopt a holistic approach in optimising our capabilities and investment needs to position ourselves at the forefront of change.

Don't just apply technology, embed it.

There are a number of emerging trends in the horizon which we monitor closely.

Whilst we do not know the precise shape of the future we are confident that our digital led strategy, approach to capital discipline and focus on customer service excellence will ensure that the AA is well positioned to adapt to change and stay ahead of competition.

Ollie Holden

Chief Information Officer

James Frost

Chief Innovation Officer

Demand forecast

Mintel best- and worst-case forecasts of vehicle recovery market, by value, 2013-2023

EMERGING TRENDS

Improving reliability

As cars become more reliable and break down less frequently, will customers be less likely to buy roadside assistance cover, thereby gradually rendering the AA Roadside Assistance business obsolete?

Where we see the opportunity

- > We welcome the increasing reliability of cars. However, the number of breakdowns has been relatively stable over the past decade with a slight increase in the last two years due to the weather. The decline in mechanical breakdowns has been more than offset by the increase in the number related to maintenance and road conditions. Tyre damage and batteries represent about one-third of total breakdowns.
- > We have been innovative in dealing with the shift in breakdowns, ensuring we have the capability to provide excellent service, whatever the problem. Our battery-testing kit and universal spare wheel have increased our repair rates while reducing repair times. We focus on our members' and customers' needs at a breakdown and are introducing services to ensure a more personal response.
- > During the year, we invested in additional patrols and contact agents in our call centres to improve our resilience and service levels. Our ongoing investment in improving our digital platform including the app will continue to improve the members' and customers' experience and help nurture further loyalty to the brand.
- > We believe that our investment in connected car will enable us to predict and ultimately help to prevent – breakdowns, transforming the industry and helping members to manage their cars' conditions and costs.

EMERGING TRENDS

Autonomous vehicles

The development of autonomous vehicles (AVs) is fuelled by expectations of safer travel. Are there concerns that this will lead to fewer breakdowns and lower levels of individual ownership, generating an eventual shift to the lower-margin B2B model?

Where we see the opportunity

- > We are encouraged by the growth of the AV market which represents another opportunity for innovation in our business, albeit far-off and subject to the removal of significant barriers. In the interim we will continue to engage positively with the industry, our business partners and Government to ensure we stay ahead of the technology. We expect this ultimately to lead to offering additional services, including technical assistance, to realise additional revenue streams.

Car pooling

Car sharing via online platforms, either from professional operators or on a private, peer-to-peer basis, is becoming more popular. Could this lead to margin dilution as fewer personal members take breakdown cover?

Where we see the opportunity

- > We have considerable experience working with over 60% of fleet and leasing companies in the UK. We have recently signed new contracts with several car sharing platforms including Zipcar and Drivy, and our intention is to work closely with these organisation to cater for these emerging driver needs.
- > At the same time, we are clarifying and enriching the benefits of being a personal member of the AA so we have a suitable proposition to continue to support members under alternative ownership models.

Electric vehicles

Electric vehicles (EVs) are more reliable and as their numbers increase, will the AA lose relevance as it will no longer be able to keep up with the evolving technology?

Where we see the opportunity

- > While EVs have so far proven to be more reliable than petrol and diesel cars with regards to emission systems and internal combustion engine faults, they still suffer from faults which are repairable at the roadside on low voltage systems, steering, suspension, brakes and ancillary equipment. The increased complexity, additional electrical systems and ancillary equipment such as charging equipment have seen new trends in component failures occurring.
- > We will continue to invest in providing our patrols with the latest technology to enable them to diagnose and repair EVs. As the proportion of EVs continues to grow so will our training and repair capability. We have a three year plan to scale our EV competence in line with the proliferation of EVs. Our exclusive partnership with Chargemaster, the biggest supplier of charging points in the UK, who are also the owners of the Polar card which is used for accessing these, gives us a significant competitive advantage in this market.
- > In addition, our technical team are fully EV trained and continue to innovate in the field of EVs, more recently developing in association with Block Automotive (AG Block Ltd) the first electric vehicle training rig and refuel/recharge at the roadside for both EVs and Hydrogen fuel cell vehicles.

Connected car

Original Equipment Manufacturers (OEMs) are increasingly including the capability of fault reporting in vehicles. Is there a risk therefore that the AA becomes disintermediated, lowering the demand for breakdown assistance service if OEMs' customers go direct to them?

Where we see the opportunity

- > The AA will continue to proactively build relationships with OEMs, improving our range of offerings so that we can continue to provide a critical service which they cannot provide themselves – we are trusted by c.13m car owners to deliver roadside assistance.
- > As we develop our connected car product, we are working closely with OEMs such as Jaguar Land Rover (JLR), Volkswagen Group (VWG) and Ford to ensure that they benefit from what we can offer. This includes proactive technical support by accessing their connected car data to be able to address vehicle faults that are better resolved by us. We believe our investment in scaled connected car services will lead to an enhancement of the value the AA provides the automotive industry, so we remain their partner of choice.
- > Our experience since the launch of Car Genie, demonstrates the potential to predict up to one-third of breakdowns. Such digital products will, in combination with our app, create a powerful digital consumer platform. Our digital capability and ongoing investment in technology including connected car has attracted interest from our B2B partners and has been a unique selling point in our recent contract negotiations. We believe this capability will appeal strongly to younger customer segments and we expect to be able to use real time vehicle data to lower insurance premiums.

Building scale in a competitive insurance landscape

Insurance has been an integral part of the AA since 1967. The insurance market has become highly competitive and due to a combination of historic under-investment, a short-term focus on profitability, and the growth of PCWs, the AA has lost its leading position in the motor insurance broking sector.

Over the last ten years the proportion of motor sales from PCWs has increased to 75%, driving competition based on price, ensuring only the most adept and agile businesses outperform. At the same time there has been regulatory change including increased regulatory scrutiny of the market.

We have invested to increase our competitiveness, both in the creation of our in-house underwriter and in putting Insurer Hosted Pricing (IHP) technology into our panel, which gives them the ability to drive more competitive premiums in real time. Our investments have returned the broker's motor policy book to growth and we will use the same approach in our home insurance book.

Insurance is at the core of the membership proposition we are developing. Our strategy focuses on how we offer more to our members and customers and accelerate growth. We believe the AA has the strengths and strategy to address the trends in the market and compete effectively.

EMERGING TRENDS

Claims and premium inflation

Motor premiums trended down in 2018, adjusting rationally to the Government's proposals to revise the process for setting the Ogden discount rate and benign claims experience in 2017. The AA saw motor claims inflation return to more normal levels in 2018 but we remain mindful of the delay to the Government's whiplash proposals which are now expected to take effect in April 2020, 12 months later than previously indicated. In respect of home insurance, after several years when prices were stable or even falling, 2018 saw a rise in claims and premium inflation. Are you worried about the impact of these on your business and plans for growth given the competitive nature of the market?

Where we see the opportunity

- > Price inflation drives churn which affects the whole market; however, as we are improving our price competitiveness and have plans to grow, this churn provides us with a growth opportunity. By similar analogy, a deflationary price environment will affect the whole market; however, over the longer term it will lower churn rates and improve overall retention levels.
- > While our cost base is highly efficient, our plans factor in managing it efficiently as we grow.
- > The AA currently provides motor insurance for approximately 10% of our roadside members. Our investment in IHP for the brokers' panel members and the ability of our in-house underwriter to leverage our proprietary data on roadside members has turned around our motor book and is expected to drive further growth both within the existing member base and non-member base.
- > We have been underwriting home insurance for just two and a half years and ahead of our expectations have managed to stabilise the decline in the home book and return it to growth in FY19. Looking beyond FY19, we are confident that the additional investments in our systems as well as the commencement of the roll-out of IHP will further accelerate the growth of the home policy book.

Investment for scale

To develop scale and accelerate growth, additional investment will be required in technology and solvency capital. How can the AA grow its small share of the motor and home insurance markets?

Where we see the opportunity

- > Our plans build on our leading brand consideration, valuable data and distribution platform. With our strong cash generation, we can continue to fund the additional levels of investment and policy acquisition costs required to grow the broker and the underwriter.
- > We have plans for systems investments within our own business to drive efficiency. Our plans to continue to put IHP into our panel members for both motor and home insurance will improve our pricing agility and drive growth in future years.
- > In addition, we will continue to grow the underwriter driven by growth of new members and increased cross-sale opportunities within the existing member base. This will require solvency capital which will be funded utilising internally generated cash, and from the profits of the underwriter.
- > By ensuring our pricing agility through IHP, greater efficiency through better internal systems, and continued growth in our underwriter, we believe we can over time achieve a full turnaround in the home book and continue to accelerate growth in the motor book.

Technology-led disruption

Technology-led disruption is set to continue for the insurance sector over both the short-term and long-term. Is the AA sufficiently nimble to navigate these challenges?

Where we see the opportunity

- > The AA is embracing this technological change and capitalising on our leading brand position. Our proprietary data on roadside members gives us a distinct advantage compared to other underwriters in respect of current members and ex-members. We share some of this data with our other panel members which supports the growth of our broker.
- > Additional investments in IHP as well as in connected car, will give us real-time pricing capabilities and additional data on the car and the driver, to enable us to apply technology and price more competitively across both motor and home insurance.

The AA's regulatory environment

- > The AA offers a wide range of insurance products which includes motor and home insurance as well as roadside assistance. The AA additionally offers other financial products such as personal loans and savings accounts, which are also regulated products.
- > The AA's insurance broker has a diverse panel of insurers which includes the AA's in-house underwriter.
- > The AA's insurance broker (AAISL) is authorised and regulated by the Financial Conduct Authority (FCA) and the AA's insurance underwriter (AAUICL) is regulated and authorised by the Gibraltar Financial Services Commission. Regular dialogue is maintained with the relevant regulatory bodies.
- > The Financial Conduct Authority (FCA) has made a number of recent changes which will impact the shape of the entire UK insurance market. We provide an overview below of the main regulatory reviews that currently impact the entire UK insurance market.
- > The AA has had a Financial Services partnership with the Bank Of Ireland UK plc (BOI) since 2015. This partnership sells consumer finance products under the AA brand both to members and non-members and has continued strong growth of its deposit and asset books over the past year. The BOI has primary regulatory responsibility for the partnership and is regulated by the Prudential Regulation Authority at the Bank of England and the FCA.
- > Through our AA Cars platform we offer competitive car financing solutions for motorists looking to buy used cars. As the car financing options themselves are provided directly by the lenders, and processed via a broker partner, AA Cars in itself is not a regulated entity.

FCA General Insurance Market Study

General Insurance plays a key part in the UK economy, generating over £78bn in premiums for UK insurers. The FCA's Financial Lives Survey shows that most UK adults have one or more general insurance products, with home and motor insurance being the most commonly held in the UK.

On 31 October 2018, the FCA announced a package of measures. These include addressing conduct by firms, a market study on general insurance pricing practices, and a wider discussion paper on fairness of pricing in financial services. The FCA has sought input to the discussion paper on fair pricing and accompanying evidence up to 31 January 2019, and the AA has been actively engaged in this consultation process.

The FCA aims to publish an interim market study report in summer 2019 setting out preliminary conclusions including, where practicable and appropriate, a discussion of potential remedies. It aims to publish its final report and, where required, consultation on proposed remedies by the end of 2019.

It is a challenging time for the UK Insurance market. The sector is undergoing significant changes as it faces a number of new challenges. In addition to external influences such as economic pressures, technology and regulatory reforms there are a number of factors impacting insurance providers, resulting in a focus on putting the customer at the heart of the business in order to deliver a competitive advantage.

Janet Connor
Managing Director, Insurance

Citizens Advice Bureau (CAB) Super Complaint

On 19 December 2018, independently of the FCA's general market study, the Competition Market Authority (CMA) published its response to the loyalty penalty super-complaint raised by the CAB in September 2018. While the initial complaint from the CAB focused on telecoms and financial services, the CMA's findings and package of reforms have implications for a much wider range of sectors. The CAB has raised home insurance as one of the five markets where it had concerns that not enough has been done to tackle the loyalty penalty being paid by longstanding customers. We note however from the CMA's response that it considers the issue to likely be much wider, potentially arising in many other markets.

The CMA does not appear to suggest that it is intending to investigate the insurance market separately to the FCA's General Market Study; however, it has recommended that as part of its study the FCA investigate insurance pricing practices and consider pricing interventions that limit 'price walking', for example rules to restrict this practice; and explore how intermediaries can continue to benefit the home insurance market.

It is anticipated that the FCA will provide an update in the summer on their progress in areas where the CMA has made recommendations.

Brexit

The political and economic uncertainty facing all UK businesses means that Brexit is an emerging risk for the UK overall and whilst we have set up a Brexit Committee in order to discuss key issues and monitor developments as the Brexit landscape evolves, at this stage we do not view it as a principal risk to our business.

There is much to look forward to in FY20 and beyond

Underpinned by operational discipline and targeted investments in our products and services, our strategy provides the building blocks to position this wonderful business for sustainable long-term growth. We are executing the plans to deliver this and have much to look forward to in FY20 and beyond.

Simon Breakwell

Chief Executive Officer

Simon on patrol with Alexandra Phillips, who has been a Battery Assist Technician for eight years

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

Performance

Financial results

Our decision to invest for the long-term was not without considerable impact on our shareholders, made worse by the historical underperformance of the business versus market expectations. It was not a decision taken lightly but one which was imperative in order for us to build a better AA. In line with our guidance, Group Trading EBITDA declined in FY19 by 13% to £341m for three principal reasons. First, we made a conscious decision to add additional resources into front line service – historically our lack of operational resilience has led to frequent over runs on costs. Second, we believe we have the potential to accelerate growth in the insurance business and this required investment in marketing and people. Third, we needed to make investments in our people across the business to drive up engagement across the Group.

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

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

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

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

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

Profit after tax was £42m (2018: £111m). The decrease was predominately due to the additional strategic expenditure of £26m noted above and the pension past service cost of £22m (2018: credit of £34m) due to the cost of Guaranteed Minimum Pension (GMP) equalisation (see note 25).

Balance sheet

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

Cash flow

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

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

Our strategy

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

I am pleased to report that one year in, we have made good progress across all our strategic priorities in FY19 and remain on-track to meet our medium-term operational and financial targets (see pages 17 to 23).

In the first year we have:

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

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

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

Positive operational momentum in Roadside and Insurance

Roadside

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

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

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

B2B

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

B2C

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

SMART BREAKDOWN

Empowering our members to feel more car confident

Smart Breakdown notifies members immediately of any detected vehicle issues and tells them what to do next. The data from the member's vehicle is also made available to our call agents, technical team and patrols.

Call agents more equipped to diagnose issues remotely

Patrols are able to get insights before arriving at jobs

Vehicle issues translated and reported to members

Beyond breakdown

In February 2019, we successfully completed the acquisition of Prestige Fleet Servicing (Prestige), a profitable and growing technology-led supplier of Service, Maintenance and Repair (SMR) services to fleet and leasing companies. The SMR market plays a key role in addressing a driver's planned and unplanned needs and represents a significant opportunity for the AA to grow new revenue streams without incurring significant capital expenditure. The acquisition will give the AA a strong and profitable digital platform from which to build a credible presence in SMR, starting initially with fleet and leasing companies and supporting our OEM partners with the intention of ultimately providing a premium product offering for our personal members. The acquisition will also deliver synergies from the integration of the AA and Prestige garage networks.

Digital and new product innovation

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

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

Insurance

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

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

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

Capital discipline and operational efficiency

As part of our disciplined and proactive approach to managing our capital structure, we undertook a major refinancing in 2018 and successfully extended the effective maturity of our debt to January 2022.

The extension in maturity means that the next repayment of borrowing (other than that to be funded by the committed forward starting senior facility) is not due until January 2022, giving us the runway to focus on delivering our strategy.

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

Well positioned to execute our strategy

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

Simon Breakwell
CEO

OUR STRATEGY

Putting service, innovation and data at the heart of the AA, to make Britain's driving life better

STRATEGY UPDATE

Last year we announced our new strategy to invigorate the AA by putting service, innovation and data at its heart. The key focus of our strategy is to develop a digital-led product proposition which can transform our members' and customers' experience. This will enable us to innovate and grow our Roadside business and accelerate growth in our Insurance business.

The strategic plan will be delivered in three phases as we test and iterate new digital propositions and build our insurance offering. It will be underpinned by improving our operations, service and culture. By phase three, we will fully utilise our data and digital offering to deliver connected, integrated Roadside and Insurance propositions that will be truly differentiated and will look to capture more of the car ownership value chain.

OPERATIONAL & SERVICE EXCELLENCE ROADSIDE

Innovate and grow

SERVICE, INNOVATION AND DATA AT THE HEART OF THE AA

INSURANCE

Invest to accelerate growth

HIGH PERFORMANCE CULTURE

PHASE 1

- > Enhanced Roadside products
- > Step-change CRM capabilities
- > Connected car – Roll-out
- > Insurance growth – Phase 1

PHASE 2

- > Connected car – Road, Insurance and B2B – new propositions in market
- > Insurance growth – Phase 2

PHASE 3

- > Fully utilising our data and digital offering to deliver connected, integrated Roadside and Insurance propositions

Strategy update

We are putting service, innovation and data at the heart of the AA.

Innovate and grow Roadside

Our Roadside initiatives cover five core areas:

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

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

- > Return to membership growth in FY21
- > 0% of all members using digital breakdown solutions
- > 20% reduction in breakdowns reported through contact centres

1. Ongoing innovation to differentiate our products and services

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

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

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

Lloyds contract renewal

The award of the Lloyds Banking Group (LBG) contract renewal in February 2019 was a significant moment for the Group. The contract, which will renew for five years from 1 April 2019, is the largest roadside assistance programme in the UK and will service approximately 2.4m customers. As part of our unique offering to LBG, we will offer Packaged Bank Account (PBA) customers access to a range of digital driving services on top of the high-quality breakdown service they come to expect from the AA.

This will generate additional revenue streams for both organisations. The AA will adapt its market leading and award-winning breakdown app, with bespoke functionality for LBG providing its customers with the ability to report and track their breakdown digitally on their phones or tablets, which will significantly enhance their breakdown experience. The app will also give LBG's customers access to a wide range of exciting products and services. We continue to develop a range of innovative digital solutions to make Britain's driving life better. A strong endorsement of this was the User Experience UK award for Best Effect of Business Goals, which we were awarded in FY19. The award was given to the AA for a new service we are currently developing which will allow customers who do not have the app to be able to visit the AA's website (theaa.com) on any device at the roadside to quickly request help and then track the patrol's progress in getting to them. This will significantly help those customers who do not have access to the app get a streamlined, accessible and driver-friendly breakdown experience.

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

2. Growing our base with new segments

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

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

3. Digital adoption and innovation to drive broader member engagement

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

We developed and launched a number of new products on the app in FY19. These included features designed to facilitate better user experience for those members who break down as well as promote active daily usage of the app through our loyalty programme and broad

range of products and services that can be purchased, including insurance and buying and selling a car through our AA Cars platform. Our loyalty programme, in particular continues to grow strongly, with 1.7m redemptions, up more than 45% since last year.

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

4. Membership systems investment to drive retention

During the year, we made good progress on CATHIE, our new membership IT system.

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

We now have nearly 300,000 policies live on CATHIE, and a significant amount of new business is being transacted on CATHIE, with about 6,000 policies a week being written on the new system. We expect to deliver a continued stream of improvements and new features to the CATHIE system through FY20 and outer years, including the continued phased migration of existing policies which we commenced in Q4 FY19, with focus being on continuing to improve retention benefits. It is a complex process to migrate policies, therefore, we will continue this into FY21 in order to minimise risk to our members and business.

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

5. Transform our breakdown service to be fully connected

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

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

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

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

54%

of personal breakdowns reported and tracked through digital channels.

Accelerate growth in insurance

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

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

New insurance innovation

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

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

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

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

Driving more competitive premiums

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

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

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

Broaden footprint to include non-members and younger customers

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

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

Operational and service excellence

Total breakdowns during the year were 3.73m, an increase of 1% compared to the prior year.

This was higher than our expectations and was 3% higher than the average over the past five years. The additional demand for our services resulted in increased reliance on third-party garaging to supplement our own patrol availability. This is both costlier to service from a breakdown perspective and generally leads to a lower level of service for our members.

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

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

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

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

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

Create a high-performance culture

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

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

I never thought that a year and a half down the line I would have been where I am today in my career. Working at the AA is not just a job; it is a massive part of life and a massive part of the person that I am today. I have fallen in love with the job I do as well as the company I work for and I think that's something most people wish for – I am incredibly lucky!

Georgia Bicknell
Talent Acquisition Consultant

The sense of pride I feel driving round in my iconic yellow van is still as strong as it was when I started with the AA almost four years ago. Every single day is different; you never know when you sign on where you will end up and what situations you will find yourself in. As patrols, we solve our members' problems in all weather conditions, at all times of the day and night and in all sorts of different locations. But the rewards of having a positive impact on somebody's day is massive, especially when you've gone that extra mile.

George Flinton
RSS Patrol of the Year

Our opportunity is clear: we are best-placed to make the car ownership experience easier, better value and less hassle.

We are hard at work on creating digital experiences that complement one another and put the AA at the centre of our members' driving lives.

Our future gives you control...

...to get the cover you need

Whether you are looking for personal cover, vehicle cover or even European cover we have a range of breakdown cover options to ensure you get the cover you need. In addition, we have a range of other products and services we offer including insurance and car financing to help keep you moving.

...to begin your driving life

From starting to learn to drive to passing your test, our driving schools will offer you the digital tools that ensure you are supported every step of the way.

...to find, check and finance your car

Integrating inspections, warranties and our car finance products into seamless online buying journeys will ensure you can easily and confidently find your next car with the AA.

...to get help

When you break down, requesting help will be one click away, whether through our app, our mobile web journeys or online chat. With Smart Breakdown we know where you are and can start to triage your fault before you make contact.

...plan your journey from start to finish

Through partnerships, our popular route planning products will gain greater utility and value to help take the everyday hassles out of your journeys.

...enabling you to maintain your car

New data-driven car maintenance products will make scheduling, booking and servicing/repairing your car simple, straightforward and pain free.

...to value and sell your car

When it's time to look for your next car, simple digital tools will ensure you get a fair price for your existing car and are in the best possible position to get your next car.

KEY PERFORMANCE INDICATORS

Robust strategic performance in changing markets

Our key performance indicators (KPIs) measure progress against our strategy. Further details can be found in the 'Our Performance' and 'Financial Review' sections.

Adjustments this year: We have updated our KPIs and introduced sustainability based measures such as Total GHG emissions and Total Shareholder Return. We have also introduced GAAP measures such as Operating Profit and EPS.

Innovate and grow Roadside		ROADSIDE
KPI	Definition	Relevance for the AA
Average income per member (£)	Average income per paid personal member excluding free memberships.	This measures the average income we generate from our personal member base. As we look to move beyond breakdown and capture an increasingly larger share of the car ownership value chain, we expect the average income to trend positively upwards.
Average income per business customer (£)	Average income per business customer.	This measures the average income we generate from our business customers. Alongside growing the business customer base we are targeting a growth in the average income per business customer through the launch of new services such as vehicle recalls and onward mobility solution through our Agile platform.
Paid personal members (thousands)	Number of personal members excluding free memberships at the period end.	This demonstrates our ability to build on our market leading position in the consumer market. Our strategy to innovate and differentiate our core Roadside proposition is expected to return our membership base to growth by FY21.
Business customers (thousands)	Number of business customers at the period end.	We are market leaders in the B2B market with c.10m business customers. A key tenet of our strategy in B2B is defending our core base as well as growing that base through new contract wins and generating new sources of income that improves the average income per business customer.
Franchised driving instructors	Number of driving school instructors at the period end.	We will measure our success in the Driving Schools market by our ability to grow our franchised instructor base. We have introduced several initiatives to drive growth in the instructor base and increase pupil market share. We also plan to develop strategies to use the Driving Schools business as a channel to promote cross-sell into Roadside and Insurance.
Accelerate growth in Insurance		INSURANCE
KPI	Definition	Relevance for the AA
Average income per policy (£)	Average income per insurance policy for motor and home.	This measure demonstrates the average income generated by our Insurance broker from our motor and home policies. As we continue to accelerate the growth of our Insurance business, the average income per policy should trend upwards.
Insurance policies (thousands)	Total motor and home policies sold in the last 12 months by our insurance broker.	Growing our Insurance business through the total number of policies we broker is a key component of our strategy. We will deliver this through new insurance innovation, driving more competitive premiums and broadening our footprint to include non-members and younger customers.
Underwritten insurance policies (thousands)	Total motor and home policies sold, including renewals, in the last 12 months by our in-house insurance underwriter.	A key tenet of growing our Insurance business is growing our underwriting business utilising our proprietary member data. We are looking at increasing our footprint to non-members as well as increasing penetration levels within our existing member base.
Operational and service excellence		ROADSIDE OPERATIONS
KPI	Definition	Relevance for the AA
Breakdowns attended (thousands)	Number of breakdowns attended.	This is a key driver of our cost base and also demonstrates utilisation of our service by our members and customers.

Profitability and cash flow generation		FINANCIAL AND SUSTAINABILITY
KPI	Definition	Relevance for the AA
Trading EBITDA (£ millions)	Trading EBITDA is the performance measure most closely aligned to that required by our debt documents (see note 3).	This is a key measure of our underlying trading performance as defined in our debt covenants. Our medium-term target is to deliver a CAGR Trading EBITDA growth of 5-8% by FY23 from the FY19 base.
Operating Profit (£ millions)	Statutory measure of profit before tax, finance income and finance costs including exceptional costs.	Alongside Trading EBITDA, this is a key measure of our underlying trading performance and is a GAAP measure. As we execute on our plans for growth we expect to drive a meaningful growth in operating profit.
EPS (pence per share)	Statutory measure of profit after tax divided by the weighted average number of shares outstanding including exceptional costs.	This measures the allocation of our profitability to our shareholders. As we execute on our plans for growth we expect to drive a meaningful growth in EPS.
Free cash flow to equity (£ millions)	Net cash flow before payments of dividends to equity shareholders.	As we deliver EBITDA growth and return to a normalised level of capex spend we expect to see a significant transfer of value from debt to equity through the growth in free cash flow.
Reduce borrowings and associated interest costs		
KPI	Definition	Relevance for the AA
Leverage (ratio)	Ratio of net debt to Trading EBITDA for continuing operations for the last 12 months (see note 28).	This is a key ratio in our debt covenants. Over the medium to long term we aim to reduce leverage to between 3 to 4 times.
Interest cover (ratio)	Ratio of Trading EBITDA to total ongoing cash finance costs (see note 6).	This measures the extent to which our earnings cover interest payments on our debt.
Sustainability		
KPI	Definition	Relevance for the AA
Total GHG emissions (tCO2e)	Our total group emissions are reported under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. Calculations follow the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), using market-based and UK location-based emissions factors.	Our emissions are material to our environmental impact on issues such as climate change, with our operational fleet accounting for 87% of our total emissions.
TSR (%)	Total shareholder return (TSR) is a measure of the performance of a companies' shares over time. It combines share price appreciation and dividends paid to show the total return to the shareholder expressed as an annualised percentage.	Total shareholder return (TSR) shows the combined return generated from the change in share price and reinvestment of dividends paid. This is expressed as an annualised percentage.

OUR PERFORMANCE

Roadside and Insurance, our two core segments

Roadside

Revenue

£841m

2018: £814m

Trading EBITDA margin

34%

2018: 39%

Trading EBITDA

£283m

2018: £320m

Breakdowns attended

3.73m

2018: 3.68m

Paid personal members

3.21m

2018: 3.29m

Average income per paid member

£162

2018: £157

Business customers

9.79m

2018: 9.93m

Average income per Business customer

£21

2018: £20

Driving instructors

2,412

2018: 2,742

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

Roadside Assistance

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

Personal memberships

During the year, the paid membership base declined by c.2% to 3.21m (2018: 3.29m) and retention fell by 1.6% to 80.3% (2018: 81.6%). The decline in paid personal memberships was principally due to our previously announced decision to re-phase our summer marketing campaign, as well as the impact of regulatory pressures and continued competitor activity. Looking ahead, improvements to our wider membership offering, a fully invested marketing plan, the completion and implementation of the new membership IT system (CATHIE) as well as ongoing improvements to the 'Stay AA' customer retention proposition are expected to lead to improved retention rates and a growing paid membership base over the medium term.

Stay AA, our proactive retention programme, achieved all-time high results, retaining 72% of those who call to cancel, with discounts averaging 21%, compared with 57% and 35% respectively when the programme was launched in 2014.

New membership volumes were steady, with sales broadly flat year-on-year, with strong underlying performance, particularly through our digital channel.

Average income per paid member rose to £162, up 3% since last year. The increase, which is broadly in line with inflation, includes the increase in the proportion of new personal members taking up monthly subscriptions and improved product mix.

Business to business

Business customers declined 1.4%, falling to 9.79m reflecting the anticipated decline in the number of Added Value Accounts (AVAs) with our banking partners and the reduction in new car registrations across the automotive sector. During the year we retained or extended all of our key contracts in line with commercial expectations. In addition, the AA won a three-year contract with Arval, a significant win for the AA in the Fleet and Leasing sector. The contract renewals, extensions and wins are a strong endorsement of our new strategy and a testament to the value our operational scale, service excellence and breadth of innovative customer solutions can bring to our B2B partners and personal members.

Average income per business customer increased by 5% to £21 (2018: £20), reflecting the new contract wins and the additional revenue recognised under our pay-for-use contracts.

Operational review

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

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

We have an exciting range of new products lined up for the app in FY20, including migrating key elements of the Car Genie app, thereby allowing our members to fully benefit from an integrated app platform, which will lead to higher levels of customer engagement. We will also be launching a new service to allow customers who do not have the app to be able to visit the AA's website on any device at the roadside to quickly request help and then track the patrol's progress in getting to them. Our digital led investments will in the longer-term help position the AA at the forefront of car ownership solutions for our members and customers.

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

Trading EBITDA (before allocation of Head Office costs) fell by 6.7% to £322m (2018: £345m). This was largely due to the additional strategic opex investments including recruitment of additional patrols and call-centre agents as well as increased third-party garaging costs resulting from the higher demand for our services during the year. Trading EBITDA margin (before allocation of Head Office costs) declined from 46% to 41%.

Driving Services

Revenue declined by 6.0% to £63m (2018: £67m). This was largely due to the change in instructor franchise mix in our Driving Schools business designed to increase our competitiveness as well as the decline in the number of speed awareness courses for the police in our DriveTech business. Overall driving instructor franchises decreased from 2,742 to 2,412 in the prior year reflecting the removal of the lower-margin 'Solo' franchise channels. Under new leadership, we are currently developing strategies to grow the Driving Schools business including the digitisation of the booking platform for new drivers. This will be a key enabler as we look to use the Driving Schools business as a growth channel for both our Roadside and Insurance divisions.

Trading EBITDA (before allocation of Head Office costs) fell £5m to £17m (2018: £22m) reflecting the changes outlined above in relation to our Driving Schools and DriveTech businesses. Trading EBITDA margin (before allocation of Head Office costs) declined from 33% to 27%.

Insurance

Revenue

£138m

2018: £145m

Trading EBITDA margin

42%

2018: 49%

Trading EBITDA

£58m

2018: £71m

Policy numbers

Brokers

1.6m

2018: 1.4m

Underwriter

598,000

2018: 407,000

Motor policies

Broker

731,000

2018: 629,000

Underwriter

339,000

2018: 223,000

Home policies

Broker

830,000

2018: 818,000

Underwriter

259,000

2018: 184,000

Average income per policy (Motor and home policies only)

Broker

£69

2018: £75

Financial Services products

112,000

2018: 142,000

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

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

Insurance Services (including broking and Financial Services)

Trading Revenue fell in line with expectations by 11% to £119m. We grew our motor book by 16% to 731,000 policies (2018: 629,000), benefiting from increased acquisition marketing spend, incremental sales and renewals through our in-house underwriter as well as systems investments including Insurer Hosted Pricing (IHP). IHP has now been installed with six of our panel members. This has enabled us to price more competitively and convert a greater proportion of quotes on Price Comparison Websites (PCWs).

The home policy book increased slightly in the year to 830,000 (2018: 818,000). This was a strong performance as we have yet to make the investment in IHP to improve our pricing agility. Looking ahead, we are confident that the additional investments in our systems as well as the commencement of the roll-out of IHP will drive further growth in the home policy book.

Average income per motor and home policy fell to £69 (2018: £74), reflecting the investment in new business growth, which has on average lower commissions compared to the rest of the book.

By the end of January, we had 112,000 Financial Services products across our credit cards, personal loans and savings portfolio. This represents a balance sheet size of approximately £558m, broadly-matched by deposits and both of which are held on the balance sheet of Bank of Ireland. Our partnership with Bank of Ireland is working well with the inherent strength of the AA brand and our marketing expertise continuing to support the business. The AA membership base and brand are benefiting the business with 24% of the non-ISA savings books held by members and 38% of our personal loans being written for vehicles. In addition, through our AA Cars platform, we are well positioned to expand our loan offering into the growing used car market.

Trading EBITDA (before allocation of Head Office costs) for Insurance Services fell 22% to £62m (2018: £79m) as a result of the increased acquisition marketing spend by the broker and falling contribution from the sale of the Home Emergency Services consumer book.

Insurance underwriting

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

In line with our strategy to drive growth of the insurer using our proprietary data to deliver more competitive premiums, we grew the motor book from 223,000 to 339,000 and the home book from 184,000 to 259,000. Looking ahead, a significant proportion of our growth will come from a new motor insurance scheme for non-members which we commenced in May 2018 through a new reinsurance relationship with Munich Re. Alongside increased penetration within the existing base, we remain on-track to deliver strong growth for the insurer.

Our Combined Operating Ratio (COR) was ahead of our long-term target of 95%. Net claims paid during the year were £15m (2018: £10m). Trading EBITDA was up £5m to £6m (2018: £1m) due to the higher ceding commission associated with driving the growth of the in-house underwriter.

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

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

SEGMENTAL REPORTING

In line with our strategy, we report our segmental performance across two core segments, Roadside and Insurance. Roadside is made up of our Roadside Assistance and Driving Services businesses. Insurance is made up of our Insurance Services and Insurance Underwriting businesses.

Head office costs have been apportioned to our two reporting segments. Costs are directly allocated where it is possible to do this; all other costs are allocated based on a pro-rata share of revenue.

TRADING REVENUE

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

TRADING EBITDA

	2019 £m	2018 £m
Roadside Assistance	322	345
Driving Services	17	22
Head Office costs	(56)	(47)
Roadside Trading EBITDA	28.3	320
Insurance Services	62	79
Insurance Underwriting	6	1
Head Office costs	(10)	(9)
Insurance Trading EBITDA	58	71
Trading EBITDA	341	391

Why we use Trading EBITDA

We use an adjusted performance measure in managing the business which is Trading EBITDA.

Importantly, this is a key measure defined in our debt documents and used in the calculation of our debt covenants so it is of great significance to our debtholders. Given the significance of the Group's borrowings, this is then also very relevant information to shareholders. See page 114 where we explain the debt structure and covenant arrangements and headroom.

Trading EBITDA adjusts operating profit for the following items:

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

We are required to remove each of these in calculating Trading EBITDA for the debt covenants. In addition, the adjustment for share-based payments was implemented at a time when the original MVP schemes (see note 34) were launched and the charge became significant. The pension service charge adjustment is made because it does not reflect underlying trading or cash contributions paid. Amortisation and depreciation are removed to calculate any standard EBITDA measure. The contingent consideration remeasurement movement is adjusted as it is a secondary impact of trading rather than part of underlying trading itself. Finally, exceptional items are items which by virtue of their size or incidence we separately disclose in order to improve a reader's understanding of the financial statements. In the current year, exceptional items related to a one-off pension past service cost of £22m as a result of Guaranteed Minimum Pension (GMP) equalisation, Business and IT rationalisation and transformation costs of £7m, conduct and regulatory costs of £2m, legal disputes costs of £1m, corporate transaction costs of £1m, onerous property costs of £1m, gains on disposal of fixed assets of £1m, impairment of intangible fixed assets of £5m and customer compensation costs of £2m.

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

OPERATING PROFIT

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

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

FINANCIAL REVIEW

We are in good shape. We remain financially strong with high operating margins, healthy cash generation and the financial and operational discipline to execute on our strategic plans and deliver value for our shareholders.

Martin Clarke
Chief Financial Officer

GROUP REVENUE

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

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

Roadside Trading Revenue increased by £27m to £841m (2018: £814m). This was principally due to the additional pay-for-use revenue in B2B as well as the benefit of consolidating the results of AA Cars which performed solidly in the year. Trading Revenue for Driving Services fell by £4m to £63m (2018: £67m) due largely to a change in instructor franchise mix in our Driving Schools business designed to increase our competitiveness as well as the decline in the number of speed awareness courses for the police in our DriveTech business.

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

GROUP TRADING EBITDA

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

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

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

Overall head office costs increased by £10m to £66m (2018: £56m) due to additional IT software costs and investment in key senior level hires to improve the resilience of the business. These costs have been directly allocated where it is possible to do this, all other costs are allocated based on a pro-rata share of revenue: £56m (2018: £47m) to Roadside and £10m (2018: £9m) to Insurance.

Trading EBITDA margin reduced from 41% to 35%, reflecting the impact of the additional strategic expenditure in our Roadside and Insurance businesses as well as the impact of higher costs from the additional demand for our services in our Roadside business.

OPERATING PROFIT

Operating profit before exceptional items

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

Operating profit before exceptional items decreased by £45m to £259m, a year-on-year decrease of 15%. This reduction was largely driven by the £50m decline in Roadside and Insurance Trading EBITDA as well as the increase in amortisation and depreciation due to the investment in IT transformation and growth capital expenditure. Share-based payments reduced by £2m, reflecting the expiration of the second vesting period.

for the MVP B shares (see note 34). The pension service charge adjustment decreased by £5m. Both share-based payments and the pension service charge adjustment have been allocated to segments.

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

FINANCE COSTS

	2019 £m	2018 £m
Interest on external borrowings	127	132
Finance charges payable under finance leases	4	6
Total ongoing cash finance costs	131	138
Ongoing amortisation of debt issue fees	15	10
Net finance expense on defined benefit pension schemes	6	10
Contingent consideration movements	2	–
Total ongoing non-cash finance costs	23	20
Debt repayment premium and penalties	15	10
Transfer from cash flow hedge reserve for extinguishment of cash flow hedge	(8)	(2)
Debt issue fees immediately written off following repayment of borrowings	6	1
Exceptional finance costs	13	9
Total finance costs	167	167

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

Taxation

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

Profit and earnings per share

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

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

Reduced pension deficit improves balance sheet position

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

On 23 August 2018, the AA UK Pension Scheme purchased a bulk annuity policy from Canada Life which insures all the benefits payable under the scheme in respect of 2,510 pensioner and dependant members. The Scheme sees all financial and demographic risks hedged for the covered members and the annuity provides the scheme with a regular income equal to its pension payments to covered members. The annuity is therefore a very precise liability hedging asset that provides an income stream to match future payments. As the premium paid for the annuity exceeded the defined benefit obligation measured as at 23 August 2018, the difference has been recognised as an increase in the balance sheet deficit at that date. In future reporting periods, the volatility around the deficit will be reduced due to the matching qualities of this asset. It should be noted that this is separate to the measure of the funding deficit (used to set cash contributions to the Scheme) which we expect will be reduced as a result of this policy. For further details, please see note 25.

The next triennial review of the AA's UK defined benefit pension scheme will be reported on as at 31 March 2019. The results from the review are expected to be received in 2020.

CASH FLOW AND LIQUIDITY

Free cash flow

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

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

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

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

The debt refinancing in July 2018 contributed to a net cash outflow for the year of £34m (2018: £61m outflow). This resulted in a reduction to the Group's cash balance to £116m (2018: £150m). As part of the refinancing in July 2018, a new working capital facility of £60m (together with a £15m accordion facility), was put in place to replace the previous £75m working capital facility, with a maturity to 31 July 2023 and with the same margin as the previous facility. Cash is held in AAA money market funds for easy access and high liquidity.

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

Interest cover is calculated as the ratio of Trading EBITDA to total ongoing cash finance costs (see note 6) and was 2.6x (2018: 2.8x).

Capital management

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

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

In July 2018, we successfully completed a further refinancing package which resulted in the extension of our effective near-term debt maturity until January 2022.

AA Bond Co Limited, a subsidiary of AA plc, issued £550m of new Sub-Class A7 Fixed Rate Notes with an expected maturity of 31 July 2024 and a final maturity of 31 July 2043, with a coupon of 4.875% payable semi-annually in arrears.

The proceeds from the issuance of the Class A7 Notes were used to repay in full the Group's previous £250m Senior Term Facility due 2021. The remaining £300m of the proceeds of the Class A7 Notes were used to redeem £300m of the outstanding £500m aggregate principal of Class A3 Notes.

The AA also entered into a £200m forward starting Senior Term Facility due in July 2023, in order to secure committed funding to be able to redeem the £200m of Class A3 Notes left outstanding at their effective maturity on 31 July 2020. This forward starting facility replaces the Group's previous £250m Senior Term Facility.

A new working capital facility of £60m (together with a £15m accordion facility), has also been put in place to replace the previous £75m working capital facility, with a maturity to 31 July 2023 and with the same margin as the previous facility.

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

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

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

CAPITAL STRUCTURE

	Expected maturity date	Interest rate %	Principal £m
Class A3 notes (forward starting new STF available)	31 July 2020	4.25	200
Class A5 notes	31 January 2022	2.88	700
Class A6 notes	31 July 2023	2.75	250
Class A7 notes	31 July 2024	4.88	550
Class A2 notes	31 July 2025	6.27	500
Class B2 notes	31 July 2022	5.50	570
Total borrowings		4.52	2,770
Finance lease obligations			61
Cash and cash equivalents			(116)
Total net debt			2,715
Equity (valued at close on 31 January 2019)			512
Total capital			3,227

The weighted average interest rate for all borrowings of 4.52% has been calculated using the effective interest rate and carrying values on 31 January 2019.

The Company continues to evaluate the optimal refinancing strategy of its debt maturities and coupon payments, including the A notes, B notes and Senior Term Facility. Early redemption of the A notes will result in make-whole interest penalties up to the date of maturity. The B2 notes currently have a reducing sliding scale premium on redemption of the principal which needs to be paid up to 31 July 2020. The cash generative nature of the business and the strategic priorities outlined for growth mean that we remain confident in our ability to service the interest obligations on our debt for the foreseeable future.

On 13 April 2018, S&P Global Ratings reaffirmed the credit rating of our Class A notes at BBB- and the Class B2 notes at B+.

NET DEBT

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

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

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

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

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

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

6 Ratio of Net WBS Debt2 to AA Intermediate Trading EBITDA for the last 12 months.

7 Ratio of Net Senior Secured Debt1 to AA Intermediate Trading EBITDA for the last 12 months.

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

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

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

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

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

KEY CASH RELEASE METRICS

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

Note that the above table relates to the financial activities of the AA Intermediate Co Limited group and therefore the metrics therein will differ from those of the AA plc Group.

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

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

3 Ratio of fixed finance charges to Trading EBITDA.

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

Dividends

Following the interim dividend payment of 0.6p per share, the Board recommends a final dividend of 1.4p per share in respect of FY19 subject to approval by shareholders at the forthcoming AGM. Total dividends for FY19 are therefore expected to be 2.0p per share. We will continue to review our dividend policy in light of our plans for future growth, the operation of the dividend gating covenant under the Whole Business Securitisation and the levels of cash retained in the business.

VIABILITY STATEMENT

The Board has assessed the prospects of the Company in the context of the current financial position of the Group and the Principal Risks described on pages 34 to 35. This assessment was considered in the context of the Group's strategic planning over a period of three years from February 2019 with consideration then given to an additional two years beyond this on a prudent basis of nil growth. The Directors considered a number of potential downside scenarios to the Group's plan. These related to the Principal Risks on a scale of the potential impact based on the probability of occurrence.

The ability of the Group to refinance its debt at an affordable interest rate on the various expected maturity dates (as disclosed in note 20) is a key assumption within this assessment. Following the refinancing in both July 2017 and July 2018, the Group has significantly reduced the amount of borrowings due with the next three years. The next tranche of debt due to mature is the £200m of remaining A3 notes which mature on 31 July 2020. As part of the July 2018 refinancing the Group entered into a £200m forward starting Senior Term Facility due in July 2023 in order to secure committed funding to be able to redeem the Class A3 Notes. Following this, the next repayment of borrowings is not due until January 2022 at which point the £700m of Class A5 Notes will become due and subsequently the £570m of Class B2 Notes on 31 July 2022.

The Directors continue to believe that, given the high liquidity of the sterling bond markets, the recent strong take-up of the new Class A6 note issue in July 2017 and the A7 note issued in July 2018 and the strong 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 the due date so that the Group continues to have access to a number of refinancing opportunities including bond issues, bank borrowings and repayment from existing cash resources. If the Class A notes are not repaid within 12 months of their due date, then the WBS group will be restricted in its ability to pay dividends until those borrowings are refinanced.

The Class A notes are currently rated as BBB-. In the event of a downgrade, there is no immediate operational or financial impact on the business. In the event that the rating is not reinstated by the time of a refinancing of the Class A notes, there would be no restriction on the Group's ability to refinance although this is likely to be at a higher interest rate. In the event that the rating is not reinstated by the time of a refinancing of a Class B2 note, the Group will be unable to refinance these notes within the WBS and will have to find an alternative source of funding.

As a highly leveraged business, the Group is subject to loan covenants as well as the requirement to pay liabilities when they fall due. The plan and downside scenarios were therefore assessed in this context and the business remained comfortably able to make payments and comply with covenants over the forecast period.

Finally the Board considered what level of stress would cause the business viability to be put into question by means of a reverse stress test. This indicated that the viability of the business would be threatened by an unexpected cash outflow of £140m in each year of the current three-year strategic planning horizon. The Directors felt it unlikely that an unexpected outflow of this magnitude would occur and also believe that it would be extremely unlikely to experience an unexpected cash outflow of £140m in each year.

Having considered all these elements of the assessment carefully, the Board has a reasonable expectation that the business will continue in operation and meet its liabilities as they fall due for at least as long as the strategic planning time horizon assuming the ability to refinance at an affordable interest rate.

Martin Clarke

Chief Financial Officer

Effective risk management remains key to the delivery of the AA 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 which are documented in this Annual Report & Accounts on pages 34 to 35. 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.

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 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 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. Where applicable, tolerance levels have been set for risks. Management information reporting 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 agreed and monitored to completion or a new tolerance level is agreed and accepted. A formal risk acceptance process is in place to ensure that any request for 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 are documented, implemented and reported to the appropriate risk forum and tracked to resolution, if any of the following issues arise:

- > Risk exposure greater than desired target
- > A significant incident or near miss occurs that indicates a control deficiency or previously undocumented risk exposure
- > Adverse key risk indicator/tolerance reporting
- > Adverse 'snap check' results
- > Issues arising from audit, compliance and other reviews or incident reporting

Principal risks

The Directors regularly review the principal risks facing the Group, including those that would threaten business strategy. A summary of the risks primarily focused on by the Committee are detailed below together with the key mitigating actions/controls, a summary of changes during the year and the primary key performance indicators (KPIs).

Risk appetite

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

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

Three lines of defence

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

Control assurance map

Our control assurance map takes information from the first line of defence to indicate any areas where controls are not operating effectively or there have been risk incidents. The map also contains all the principal risks identified by the Board. Onto this we map the second line – compliance and risk monitoring – and third line – internal audit – assurance activity for the current year, prior year and year ahead 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 help ensure the assurance plans cover the most appropriate areas.

RISK MODEL

The AA uses a bullseye risk model to guide the business in the identification of risks to the organisation. This considers core (including evolving), transitional, strategic and horizon/emerging risks.

> Core risks

The risks that are a daily part of our business activities (business as usual risks). They may be constant or may be evolving over time.

> Transitional risks

The risks that are present as a result of initiating and making changes.

> Strategic risks

Any risk that may adversely impact upon the delivery of a strategic objective.

> 'Horizon' (or emerging) risks

New/potential threats or opportunities that we need to prepare for. These are also considered as part of the strategy and three-year planning process.

Key: Impact, likelihood and trend

Decrease in risk profile Same as last year Increase in risk profile

PRINCIPAL RISK

Outstanding service

We are unable to maintain an outstanding service

Risk trend

Link to strategy:

Innovate and grow Roadside

Primary KPIs

- > Breakdowns attended
- > Response times
- > Percentage of completed repairs at the roadside

(see pages 24 and 25)

Description

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

Mitigation

Over the course of the last year the AA has invested in more patrols, contact centre agents and training and support to ensure we are well placed to provide a premium service to our customers throughout the year. The AA has also made a number of foundational improvements in underlying systems and technology in order to improve stability and resilience.

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

Change in the year

Work continues to increase the flexibility of the patrol force, reduce costs and improve customer service. The complaints handling team has been strengthened to improve response and resolution times.

Also see pages 26 and 27 for further details on Our Performance during the year.

Impact, likelihood and trend

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

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

PRINCIPAL RISK

Roadside market share and margin

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

Risk trend

Link to strategy:

Innovate and grow Roadside

Primary KPIs

- > Paid personal members
- > Business customers
- > Average income per member

> Average income per business customer

(see pages 24 and 25)

Description

Competitors that provide roadside services at a lower price or have a different business model, together with changes in car technology, threaten our market share. If we charge a price premium that is above that which 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 our pricing practices are in line with the expectations of our customers and regulators.

Mitigation

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

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

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

Change in the year

Car Genie, our Connected Car product, has been deployed through a number of channel offerings and will continue to be piloted alongside existing products or in new products.

Also see Market context for further details on our position in the market including threats from improving car reliability, electric vehicles, car-pooling, Connected Car and autonomous vehicles and how, if we react appropriately, these can be opportunities for the AA.

Also see Our business model for details on the competitive landscape.

Impact, likelihood and trend

Long-term the AA will 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 renewed in 2019, and other B2B contracts, including major car manufacturers.

Membership has remained relatively stable in the last 12 months.

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

PRINCIPAL RISK

Regulatory and legal environment

A changing regulatory environment may adversely affect our activities

Material litigation against the AA

Risk trend

Link to strategy:

Financial and other

Primary KPIs

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

Description

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

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

Changes in Government legislation or taxation could impact the business model.

Mitigation

The AA has a zero appetite for systemic non-compliance with legal and regulatory requirements.

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

The Board continues to actively review its pricing practices in line with guidance from the FCA and in light of current market practice.

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

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

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

The AA has in house Legal and Compliance teams and also takes external legal advice.

Change in the year

In addition to commencing preparation for the Senior Managers and Certification Regime (SMCR), the AA, along with other UK insurers, brokers and aggregators, has responded to the FCA's market study on pricing practices announced in October 2018 and industry data requests.

Implementation of Insurance Distribution Directive (IDD) and General Data Protection Regulation (GDPR) requirements has seen a significant change to business processes.

Impact, likelihood and trend

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

Continued increases in IPT could make insurance products, including Roadside Assistance, less affordable for our customers. The output of the FCA's review of pricing practices could have an impact on product offerings and profitability.

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

PRINCIPAL RISK

Information security/Cyber crime/Data breach

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

Risk trend

Link to strategy:

Financial and other

Primary KPIs

> Data Breach incidents

Description

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

Mitigation

The AA has an ongoing programme of security improvements to maintain a suitable level of security for the increasingly sophisticated world-wide cyber threats. Controls include information security awareness training, preventative and detective security, a specialist information security team, and information security requirements being included in third party arrangements.

The AA benchmarks its security controls against the Standard for Information Security (ISO27001).

Change in the year

Progress has been made in the year to enhance our IT security and defences against cyber crime and reduce exposure to third party risk. However, firms continue to fall victim to cyber attacks.

We consider cyber risk to be an ever emerging/evolving risk and through our ongoing programme of improvement we will continue to take additional steps to improve our controls, taking guidance from external specialists.

Impact, likelihood and trend

As for any company the impact of this risk crystallising could be substantial.

PRINCIPAL RISK

Business & IT transformation

We are unable to successfully complete essential business transformation

Risk trend

Link to strategy:

Operational and service excellence

Description

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

Although much has been achieved in FY19 there remains much to do and the required improvements to process, embedded ways of working and culture, inherently involves risks in a customer facing service environment.

Mitigation

There is an ongoing cost efficiency and process improvement programme in place with progress tracked at regular Management Business Reviews.

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

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

Change in the year

In line with the strategy, transformation investment and effort has been focused across core areas including Digital/Connected Car, Data, IT and our core P&Ls, with projects aligned to both strategic enablement and EBITDA generation.

Continued investment in our IT systems has improved our productivity and marketing and digital capabilities.

The AA has invested in people to effectively manage transformation in the business, including the recruitment of a new Chief Innovation Officer, and a dedicated transformation team.

Also see Our strategy on pages 17 to 23 for further details on transformation.

Impact, likelihood and trend

Strong management capability and oversight have been put in place to better manage this risk.

PRINCIPAL RISK

Insurance broking

Price comparison sites will further damage the insurance broker model

Risk trend

Link to strategy:

Operational and service excellence

Primary KPIs

> Insurance policies

> Average income per motor and home policy

(see pages 24 and 25)

Description

Consumers' use of price comparison sites may continue to transfer value away from our insurance broking business.

Mitigation

We continue to use our strengths in the brand, channels and data to mitigate this risk and to extend our panel of insurers.

Change in the year

Our Motor insurance book has increased in the year as a result of the growth in our underwriter and roll out of insurer hosted pricing. The Home insurance book has remained relatively stable.

Also see Market context for further details on our position in the market including threats from claims and premium inflation, developing scale, technology and regulation and legislation and how, if we react appropriately, these can be opportunities for the AA.

Also see Our business model for details on the competitive landscape.

Impact, likelihood and trend

The competitive threat from price comparison sites remains unchanged. However, the success of our panel model in the broker and the adoption of insurer hosted pricing enables us to better respond to this threat. Through our in-house underwriter that sits on the panel of insurers, we commenced broadening our target market footprint in FY19 by targeting customers who are not members of the AA and we have seen growth in this area.

PRINCIPAL RISK

Insurance underwriting

Higher than anticipated claims costs

Risk trend

Link to strategy:

Accelerate growth in Insurance

Primary KPIs

> Underwritten insurance policies

> Claims and Loss ratios

(see pages 24 and 25)

Description

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

Mitigation

Strict underwriting guidelines are used to ensure claims frequency and costs remain within expected levels. The reinsurance structure using co-insurance and quota share proportionately reduces the AA's risk. Excess of loss and catastrophe reinsurance is also used to protect against costly individual claims and events.

Change in the year

Our in house underwriter, (a member of our Broking panel) continues to grow its Motor and Home books.

Also see Our business model on pages 7 to 9 for details on the competitive landscape.

Impact, likelihood and trend

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

PRINCIPAL RISK

Debt leverage and pensions

We are unable to manage our debt

Risk trend

Link to strategy:

Financial and other

Primary KPIs

- > Leverage
- > Interest cover
- > Trading EBITDA
- > Free cash flow before equity

(see pages 24 and 25)

Description

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

Mitigation

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

Change in the year

Debt refinancing – The A3 notes were partially repaid and replaced with new debt at no significant change to leverage, but providing certainty to 2022, which in turn will enable delivery of the strategy without the distraction of re-financing in the near term.

Impact, likelihood and trend

The Directors continue to be confident that the Company will be able to refinance existing borrowings at an acceptable price when they fall due. We will continue to make additional repayments to reduce the debt burden as opportunities for this arise.

Whilst the Company remains highly leveraged, this further restructuring improves the ability of the Company to manage unforeseen financial shocks.

Please also refer to the Financial Review on pages 29 to 32.

The lifeblood of the AA

Our people are our lifeblood and we thank them and recognise their achievements throughout the year through our Extra Mile programme. Once a year, at the AA Awards, we celebrate the dedication and hard work of all our people in living our values. In 2018, we had over 250 nominations and 1,000s of votes for the awards.

Huge congratulations to all of our winners and finalists. I can't put into words how proud I am of everyone in the AA. These awards represent the best of the AA and everything we do to make Britain's driving life better – from the hundreds of people who nominated colleagues, to the thousands who voted, it is a perfect example of the teamwork that makes the AA what it is today – and prepares it for tomorrow.

Simon Breakwell, CEO

When you have a passion for something, as I do for Land Rovers, there is nothing better than being able to combine my hobby with my work life. Being able to provide a high quality of service to our customers ensures they can continue with their day with minimal disruption, bringing me great job satisfaction.

Dominic Vince, Dedicated Technician for Jaguar Land Rover

To be recognised for the Leadership award was a real honour and the fact that I was nominated and voted for by my colleagues means a great deal to me. I have been with the AA for nine years, starting as an Apprentice, and I am very proud to continue to represent the AA and the values that the brand stands for.

Dean Whitlock, Customer Manager

1. Care

Antony Morris, Patrol

2. Dynamism

Cenk Felton, Patrol

3. Patrol of the Year

George Flinton, Patrol

4. Volkswagen Group Dedicated Technician

Stuart Fisher, Dedicated Technician

5. Jaguar Land Rover Dedicated Technician

Dominic Vince, Dedicated Technician

6. Leadership

Dean Whitlock, Customer Manager

7. Collaboration

The Payroll Team

Receiving this award is one of the proudest moments of my life. I genuinely did not believe I had won! It means an awful lot to think that my work colleagues took the time to vote for me. This is a fantastic job, the satisfaction you get from making someone happy is second to none, and we get to do this day in day out.

Ross Millward, Patrol

I never thought that a year and a half down the line I would have been where I am today in my career, let alone win such an important award. Working at the AA is not just a job; it is a massive part of life and a massive part of the person I am today. I have fallen in love with the job I do as well as the company I work for and I think that's something most people wish for – I am incredibly lucky!

Georgia Bicknell, Talent Acquisition Consultant, HR

8. Customer Adviser of the Year

Holly Ritson

9. Recovery Patrol of the Year

Chris Ross, Patrol

10. Apprentice of the Year

Georgia Bicknell, Talent Acquisition Consultant, HR

11. Courtesy

Ross Millward

12. Expertise

Steve Suckling, Finance Business Partner

Stakeholder engagement leads to better business outcomes

Listening to and engaging effectively with our wide variety of stakeholders plays a critical part in our long-term success. The outcomes from this engagement inform many aspects of our strategy such as risk management and business opportunities, including our objectives and ambitions. It is a key priority for the Board that the views and interests of all of our stakeholders are considered as part of our decision making.

The continuous dialogue we have with our stakeholders takes place through a variety of channels, including:

Employees

How we listen and engage

Surveys, engagement events, intranet, internal communications, business update presentations, training and needs analyses, site visits, performance and development reviews.

Examples in action during 2018

- > Launch of the hub, launch of Business Voice (p42)
- > AA Awards (p36)
- > Business Bites face-to-face update sessions
- > Launch of Extra Mile and VIP
- > Undertook the Hampton Alexander Review (p65)
- > Second employee survey

Communities and society

How we listen and engage

Social media, the AA Charitable Trust, education, support through local initiatives, AA Populus Poll

Examples in action during 2018

- > Aligning to the UN's Sustainable Development Goals (p40)
- > Formalising our human rights policy (p50)
- > Signatory to the military covenant (p41)

Government and regulators

How we listen and engage

Campaigning, Primary Authority Scheme, responding to consultations, regular meetings with the FCA

Examples in action during 2018

- > Meetings with the FCA, widening our Primary Authority Scheme membership (p46)
- > Potholes and campaigning for amendments to the Highway Code (p40 & 46)

Industry

How we listen and engage

Member of the SURVIVE Group

Examples in action during 2018

- > Slow Down, Move Over campaign (p46)

Shareholder and investors

How we listen and engage

Annual General Meeting, annual and half year reports, results announcements and trading updates, individual investor meetings, road shows, investor indices, participation in investor relations best practice events, Carbon Disclosure Project (CDP) assessment

Examples in action during 2018

- > Meetings held throughout the year with shareholders and bondholders in the UK and Europe (p62)
- > Attended UK TCFD Preparers Forum

Strategic partners

How we listen and engage

B2B customers (OEMs) supplier meetings, performance reviews, news bulletins, audits, due diligence

Examples in action during 2018

- > Implementation of cloud-based procurement management and garage agents audits (p50)
- > Partnership with POLAR network (p48)
- > ARC Europe Group meetings (roadside assistance services in Europe)

Members and customers

How we listen and engage

AA app, surveys, external assessments (B2B customers), Net Promoter Score®, focus groups and other primary research, continual review of feedback and complaints, feedback via call centres, emails and social media messages, customer-facing colleague feedback. We focus on the customer journey, listening to the voice of the customer to identify and analyse root causes to enable us to deliver fair customer outcomes

Examples in action during 2018

- > Chartered Institute of Procurement and Supply Sustainability Index
- > CDP Supplier Engagement Assessment
- > Effective reduction in the numbers of complaints received

Slow Down, Move Over – The AA, RAC and Green Flag have joined forces to call for enhanced motorway safety rules to protect road users as well as breakdown and recovery patrols.

Our monthly driver poll gives us important insight and helps us campaign for change on the issues affecting drivers today

Making progress against stretching objectives

This time last year, I shared with you our exciting new approach to CSR which saw us integrally link how we do good, sustainable and ethical business with our core business values. We detailed our future aims and plans and the strategy that would help us deliver that. This year, I am pleased to confirm we have delivered our commitment to make quick progress and this report will provide you with some of the highlights and achievements we have accomplished over the past 12 months.

Edmund King .
AA President .

BENCHMARKING

We continue to benchmark ourselves against others in our industry through independent assessments:

- > RobecoSAM Sustainability Assessment (DJSI) – We are very proud that, as one of the top-scoring companies in our industry, not only have we been included in The Sustainability Yearbook 2019, but we have also received the Industry Mover distinction for our “excellent sustainability performance”
- > FTSE4Good Index Series – We remained a constituent of this index, moving into the top 30% of companies rated within our sector
- > Chartered Institute of Procurement and Supply Sustainability Index – We have significantly outperformed our industry benchmark and organisations of a similar size

Key CSR milestones in the 2019 financial year

Our people

Attracting and retaining talent; effective employee engagement

- > We launched a new company-wide employee recognition programme based on our values, Extra Mile
- > We have welcomed over 2,700 new employees to our business including 100 apprentices
- > We created a change agenda based on actions to address the feedback from our employee survey – OurVoice
- > We launched our apprenticeship programme for Roadside Technician apprentices

Safety

Of employees and our members, customers and the wider public

- > We achieved the lowest accident frequency rate in the past five years
- > We reduced our lost time frequency rate compared to 2017
- > We were highly commended in the Office for Product Safety and Standards Regulatory Excellence Awards in June this year
- > Lowest number of reports ever made to the Health and Safety Executive under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulation

Environment

Emissions from our operation

- > Operational fleet emissions reduced by 16% per job compared to our baseline year FY15
- > Building emissions (market based) reduced by 45% per ft2 compared to our baseline year of FY15
- > We undertook the CDP for the first time ever and are very proud to report that for both our climate change rating and our supplier engagement rating we have been awarded a B-

Looking to the future

Climate change

- > To help to deliver the United Nations Sustainable Development Goal (UNSDG) 11 Sustainable Cities and Communities, we will be focusing on the following actions:
- > Developing our alignment to the recommendations from the Task Force on Climate-Related Financial Disclosures
- > Utilising the results from our first CDP assessment to build on our existing approach to risk management
- > Continue with our programme to deliver a reduction in our emissions, including:
 - Taking opportunities to use electricity from certified renewable sources
 - Leveraging the data and opportunities provided through telematics fitted in all operational vehicles
 - Working with a partner to develop a bespoke operational electric vehicle which will meet our operational requirements

Health and safety

To help to deliver the United Nations Sustainable Development Goal (UNSDG) 8 Decent Work and Economic Growth, we will be focusing on the following actions:

- > Laying the foundations to enable certification to ISO 45001 standard within Road Operations and the DriveTech business
- > Embedding our new HS&E strategy with our people, customers and suppliers

Engaging our people

- > We will continue to develop our new intranet platform, "the hub", and use it to further improve collaboration and ideas sharing between employees and management. We will undertake the employee survey annually and use this to measure progress so far and identify areas for further improvement. We will continue to develop our Extra Mile recognition programme, embedding it within our business and further linking it to our values

Wellbeing

- > We will continue to focus on employee wellbeing, mental health and musculoskeletal support

A global view

We recognise the global impacts of the AA and how the way in which we run our business can genuinely make a difference. This year, we want to take the opportunity to outline how we are supporting the United Nations Sustainable Development Goals, the commitments we have made to these and the work that has been undertaken as well as how our management and business processes aim to minimise our impacts and maximise our opportunities to make a genuine difference to society.

HOW WE SUPPORT THE UNSDGs

This is a primary goal for us. We are committed to providing a healthy environment for our people to work in and will promote wellbeing and healthy minds.

PEOPLE P41 SAFETY P45

We are committed to ensuring the right workforce is available at the right time with the right skills to deliver a safe and responsible service. We will help to develop talent in our local communities through schemes such as work experience, apprenticeships and ex-armed forces placement.

PEOPLE P41

This is a primary goal for us. We will respect and treat everyone fairly, from our employees to anyone else who comes into contact with our services. We will not tolerate discrimination and will actively promote equality of opportunity and delivering fairness to all.

PEOPLE P41

Although we are not a water intensive business, we will measure and monitor our usage of this resource and aim to reduce the levels we use at our sites.

ENVIRONMENT P47

This is a primary goal for us. We aim to provide a safe working environment and will ensure our teams have the right support in place to enable this. We aim to only use suppliers committed to eradicating forced labour, ending modern slavery and child labour. We will ensure our products, including insurance and banking, meet legal requirements, industry standards and practices (where appropriate).

SAFETY P45 SUPPLIERS P50 GOVERNANCE P52

We are committed to working with business partners to identify, implement and promote new technologies to make driving safer and encourage eco-driving. We aim to create new products, services and partnerships to help develop the infrastructure needed to support low carbon vehicles.

ENVIRONMENT P47

This is a primary goal for us. We are committed to reducing the emissions we generate through the delivery of our service. We will always consider this impact within our fleet and property management.

ENVIRONMENT P47

Our goal is to avoid creating waste; where this is not possible, we will reuse as much as we are able. When waste is generated, we aim for zero waste to landfill. We seek to assess the impacts of products that we supply using a life cycle approach to minimise risks to sustainable production and consumption.

ENVIRONMENT P47

This is a primary goal for us. We are committed to helping to mitigate global warming by monitoring and managing the emissions in our business, seeking to reduce these where possible.

ENVIRONMENT P47

We are committed to operating a Group that has sound and effective corporate governance. We will actively encourage whistleblowers to report any concerns with the way in which the Group is being run or any relationships with or service given by suppliers. We will ensure our tax strategy is fair.

GOVERNANCE P52 TAXATION P30 ANTI-CORRUPTION AND ANTI-BRIBERY P44

We will share best practice with business customers, our suppliers and others in our industry, building partnerships which can, together, make a difference. We will only do business with those suppliers who share our ethical practices and commitments. The AA Charitable Trust will campaign on behalf of the motorist to help make our roads safer and minimise the impacts of driving on the environment. This includes running public awareness campaigns and influencing and working with the Government to achieve this.

SAFETY P45 A LOCAL VIEW P40

A local view

Throughout this year, we have continued to work closely with our community and to promote safe and environmentally focused use of our roads. To see this work and the campaigns we have been running please go to www.theaa.com/about-us/aa-charitable-trust. Some of the highlights this year include:

- > Our innovative public awareness campaigns on Road Safety were recognised in the prestigious Prince Michael International Road Safety Awards
- > Our Drowsy Driver Campaign, part funded by the FiA, highlighted that one quarter of road deaths may be due to drivers falling asleep at the wheel. The campaign aimed to raise awareness of the issue and to offer constructive advice
- > Our 'Flag it. Fund it. Fill it.' campaign for ring-fenced funds to improve the state of the roads and raised the issue highlighted by a coroner that lack of repairs can lead to deaths of cyclists

Connecting responsibility and strategy

We are effectively integrating CSR into how we do business by aligning it to our Company Values and we are able to deliver a value-added CSR programme by ensuring our activities positively impact and help to deliver the Company Strategy:

Innovate and grow Roadside

- > Safety
- > Environment

Accelerate growth in Insurance

- > People
- > Environment

Operational and service excellence

- > People
- > Safety
- > Environment
- > Our suppliers

Create a high-performance culture

- > People
- > Safety
- > Our suppliers

Our people

Achieving our strategic priorities depends on our people. They represent our Group among customers and communities. Our aim is to be a great place to work, providing interesting and challenging opportunities, excellent career progression and a collaborative, inclusive and values-based culture for our people. This is the key to creating value for all our stakeholders which is why our people are identified as a principal risk to the successful and sustainable operation of our service.

The most significant areas which impact this risk are:

- > Attracting the right talent/our employer brand
- > Retaining talent through development, engagement and wellbeing
- > Diversity
- > Anti-corruption and anti-bribery

These areas are controlled through our policies and processes as well as the monitoring of our management and control strategies through regular reviews with the Senior Management Team. Both internal and external audits are undertaken as part of the ISO certifications relating to our road operations. We have undertaken significant work to address these risks throughout 2018, as detailed below.

Attracting talent to our business

This year, we changed our internal structure, processes and policies, methods to attract candidates, and our operating model; implementing a strong direct sourcing strategy focused more on longer-term employee value, rather than short-term reactive hiring.

Our employer-brand, encapsulated by 'Ready for ANYTHING?' underpins all our recruitment communications from job postings to the careers site. We've continued to focus on more proactive, innovative approaches to our attraction methods, by really raising our employment profile both generally and within the job families in which we recruit. This year, we designed and delivered our first ever AA recruitment video (the 'Almost any role' film) and ran our first ever AA experiential events, resulting in never-seen-before engagement statistics.

Our careers website launched last year continues to provide the perfect vehicle to combine all the attraction and engagement elements to really emphasise the brand, the breadth of career opportunities, and a fantastic candidate journey.

The team delivered over 2,700 hires, attracting 56,000 candidate applications (up 86% on last year). Despite this volume, more than 90% of hires come from direct sources, avoiding significant costs and maintaining a low cost per hire.

Military Covenant

As part of our long-standing commitment to supporting the redeployment of armed services personnel into civilian roles and supporting armed forces reservists, this year we re-signed the Military Covenant which we retained at Gold level. We also continue to promote AA job opportunities through military events and both the CTP (the MoD's official provider of Armed Forces Resettlement) and Early Re-Settlement Magazine.

Supporting health in the workplace

Providing support for employee health and wellbeing is important to our people strategy and demonstrates how we are helping to deliver UN SGD 3 Good Health and Wellbeing. This year, we have continued our focus on the wellbeing of our employees. We have appointed a new occupational health (OH) partner who provides an end-to-end support service including occupational health referrals, triage and assessment, alongside tailored solutions. Examples of this include the provision of cognitive behavioural therapy, physiotherapy and surgical interventions if required. Our occupational health referrals have increased year on year which was expected due to our increased focus.

The key work-related activities that pose a risk of ill health for our operation are:

ACTIVITY	CONTROL	PERFORMANCE
Using workstations	Mandatory training and assessment programme	We had no diagnosed ill health directly caused by workstation use
Use of chemicals (Patrol and Signs Officers)	The chemicals used are off the shelf products that anyone can purchase, including the general public. CoSHH assessment undertaken, regular product reviews, mandatory skin surveillance, training in the safe use of chemicals, substance information notes provided to the end user covering how to store and use the product safely, and what action to take in an emergency	We had no diagnosed ill health caused by chemicals in the workplace

READY FOR ANYTHING

From the road, to our customer contact centres and Head Office, our people are ready for anything. www.theaacaers.co.uk

Promoting health and wellbeing

It is very important to us that we not only support our people in relation to occupational health related issues, but also in any non-work-related health matters which may arise. We utilise the services of our occupational health provider to provide support for medical matters as required, as well as providing awareness and additional promotion for areas such as:

- > Mental health – as one of the leading causes of illness, mental health is an area of growing importance to our business. We have taken several steps to support our people, regardless of the issue being work-related or not
- > We provide an employee assistance programme which provides free, confidential, 24/7 support for our people both online and over the phone, as well as providing face-to-face therapy sessions as required. Qualified counsellors provide support on a range of topics including personal, work, family relationships and daily living
- > We have partnered with our occupational health provider to deliver an emotional wellbeing awareness course to all line managers across the Company during this year. This provides our management team with the skills to identify potential issues and the tools to start the right conversations
- > Line managers have received specialist training in managing mental health in the workplace and have attended interactive workshops to gain confidence in being able to identify signs and symptoms of mental health fatigue, as well as being able to identify the most appropriate and practical support mechanisms available
- > We provide all employees with stress awareness and management information through a mandatory course that is delivered on a scheduled basis, as well as having access to it if needed in between
- > Musculoskeletal support – as one of the leading causes of absence among our people, we have introduced a self-referral programme for all employees to provide them with access to physiotherapy, which is managed by our occupational health provider. For details on the actions we have taken for work-related health risk, please refer to the safety section on page 45
- > We provide advice for maintaining good health related to seasonal risks such as colds and dehydration, as well as advice and guidance on general wellbeing and mindfulness

We also have various health schemes available within our flexible benefits scheme for our management grade, including access to services such as health checks and dentistry, and access to a private medical service.

Engagement with our people

Following our last employee cultural index survey, Our Voice, we ran a 'snapshot' survey of a representative sample of employees who were in our business at the time of the full Our Voice survey. The results gave us a clear view on the substantial progress we have made in our four key areas:

- > Respecting and supporting customer-facing teams and providing more support for them
- > Improving cross-team working
- > Identifying ways to improve and increase opportunities for development and career progression
- > Involving employees in sharing their ideas to improve the business

Throughout this year, we have continued to focus on improving Group-wide communication, including launching a new intranet, the hub, and a weekly news round-up, distributed by email, Business Voice. The hub is a platform for communication and collaboration and is available to all employees online. It's important that our people have a voice and the opportunity to share their thoughts, feedback and suggestions for the business.

As well as online channels we also run regular face-to-face sessions at every location, for our people to hear from the Executive Committee about our progress, ask questions and share ideas. This year, our patrols were brought together at roadshows across the country to hear from the Senior Leadership Team and share their views on our strategy.

This year, we launched a Company-wide recognition scheme, Extra Mile, to recognise and reward our employees for living our values and providing excellent customer service. Extra Mile also promotes local awards, Values in Practice (VIP), encourages peer-to-peer recognition through a variety of e-cards and provides access to discounts on shopping and services. Extra Mile is available to all employees and supports us in developing a thank you culture.

We continue to work closely with our recognised union, the Independent Democratic Union (IDU) as well as the Management Forum (an elected group for management-level employees) to ensure our employees' views are heard, as well as meeting our legal obligation to inform and consult. Meetings dedicated to the operational areas are held with the IDU once a quarter to discuss all employee-related matters, including safety and workers' rights and we engage with them on matters related to pay. For 2019, we have revised our Management Forum terms of reference and will be holding elections for new members.

It is important to us that our people are actively involved with our safety risk assessments so, wherever relevant, at least one union representative joins the group that is carrying out the assessment to ensure they are represented.

We maintained our all-Employee Share Incentive Plan, giving our people an opportunity to invest in our brand and share in any success. Participants receive a free matching share for every share purchased and are entitled to receive a dividend on their holding. As at 31 January 2019, 33% of our eligible employees participated in the plan.

We have the AA Worksave Pension Plan which offers increased employer contribution rates if employees contribute more, and life assurance cover to support our people into their retirement. As at 1 January 2019, we had 2,246 employees in the AA Auto-Enrolment Plan, the Government's minimum pension requirement for workers.

Going that extra mile

From the everyday to the once-in-a-blue-moon. Our highly skilled mechanics have truly seen it all, and do whatever it takes to get our members' journeys back on track. www.youtube.com/user/theAAPatrol

The AA Academy

New starters

- > Welcome Pack and Induction
- > Role Specific Induction Training
- > Improving Onboarding/Induction (the first 90 days)

Colleagues

- > Role Specific Training
- > IDD
- > Annual Mandatory E-learning

People Managers

- > Training & Competence
- > Group First Line Manager Programme
- > Leading the AA Way
- > Top Talent Programme

Senior Managers

- > Training & Competence
- > High Performing Teams
- > Top Talent Programme

Group Performance Management System

Access to Training – Optamor

Apprenticeship Programmes – Internal and External through Evolve

Talent Management & Succession Planning

Graduate Scheme

Conduct and Regulatory Programme

Underpinned by our AA Values and Behaviours

Developing a high-performance culture

This year, we have brought all our learning and development courses and programmes under one roof, creating the AA Academy. This is part of our plan to transform the AA's culture from training to learning.

The Academy is open to all employees and uses an approach known as 70:20:10, where 70% of learning takes place on-the-job, 20% of learning comes from others, and 10% from formal training courses.

Apprenticeships

This year, we have embedded Evolve, our emerging talent programme. This programme includes 40 apprenticeship pathways, all of which are industry recognised qualifications, from level 2 up to level 7. Employees can participate in management, MBA, customer service, automotive, HR and project management apprenticeships with more options planned. We now have over 100 employees actively participating in apprenticeships, which is an increase of 800% from last year.

We initiated, developed and commenced delivery of a 15-month Institute of Leadership Development first-line manager programme for all of our performance leaders (c. 150 people), in our Roadside business. This programme will be complete in late 2019, when all attendees will have achieved a recognised qualification in leadership management at level 3. To date, we have delivered 740 delegate days and are halfway through the programme. In addition, a Group first-line manager programme was launched in November 2018 aimed at all first-line people managers. We offer training and development to all employees in the form of e-learning. Our mandatory learning modules are:

All employees

- > General Data Protection Regulation (GDPR)
- > GDPR digital (if applicable)
- > Information security
- > Conflicts of interest
- > Financial crime and anti-bribery
- > Equality and diversity
- > Treating customers fairly and conduct risk
- > Stress and workplace wellbeing
- > Health, safety and environment
- > Whistleblowing
- > Competition law

Patrols

- > Dynamic risk assessment
- > IOSH manual handling
- > Self-aid

Office employees

- > Workstation use and set up

Managers

- > Absence management
- > Recruitment process guide
- > Performance management
- > Disciplinary and grievances

Our mandatory courses were completed 49,085 times. In addition, employees completed product assessments 2,394 times. External training was also delivered to 1,907 individuals.

We partner with the UK's largest skills, training and employment services providers to create remarkable opportunities for employees to flourish www.theaacareers.co.uk/early-careers/

A breakdown by gender of the number of people who were Directors of the Company, senior managers and other colleagues as at 31 January 2019 is set out below.

Diversity

To help deliver UNSDG 5 Gender Equality, we are committed to supporting diversity and creating an inclusive workplace where all our people feel valued and able to fulfil their potential.

Our people come from different backgrounds and cultures and we are committed to supporting diversity and creating an inclusive workplace where all people feel valued and able to fulfil their full potential.

The importance of diversity, equality and non-discrimination is highlighted in our Equality Policy and we are proud that this is demonstrated through our culture, where decisions are based on individual ability and potential in relation to the needs of the business.

In March 2019, in line with the gender pay gap reporting regulations, we reported a mean gender pay gap of 17.8% and a median gender pay gap of 23.2% both on the new Government Gender Pay Reporting website and on our own corporate website. These figures show a reduction from 18.8% and 26.6% respectively from the figures reported in March 2018, but with women still representing only 32% of our traditionally male dominated workforce across the Group, we acknowledge that there is still much to do in this area. Our gender pay gap summary, which can be found in both of the locations referenced above, outlines the reasons behind our figures and what we intend to do to close the gap further over time.

Over the past 12 months, in line with the commitments we made in last year's Gender Pay Report, we have focused our attention on our internal and external recruitment practices and the wider promotion of flexible working across the Group. Over the course of the next financial year, we aim to better understand any barriers to female career progression, particularly in relation to our patrol roles and will continue to work with external specialists to support the promotion of women in science, technology, engineering and mathematics (STEM) roles.

Our key controls to help us deliver an inclusive culture and diverse workforce are:

- > An equality and diversity policy which applies throughout the AA and is provided to all employees during their induction training
- > All our people being required to complete a mandatory equality and diversity module annually in order to ensure understanding and mitigate risk of non-compliance
- > Should one of our people become disabled (mentally, physically, permanently or temporarily) during employment we have processes in place so that we are able to make every effort to adjust their environment to allow them to maximise their potential and remain a valued member of the AA team
- > We monitor and seek to ensure a good balance of male and female employees throughout our Group (bearing in mind the male focus of patrols)
- > We continue to build a supportive and flexible culture that enables us to develop and retain women
- > We are members of the Disability Confident scheme, the Government's scheme to support disabled people in the workplace
- > We have regular discussions with employees with disabilities to consider changes we can make to ensure their ongoing career development

Anti-Corruption & Anti-Bribery

We recognise that it is our responsibility to carry on our business and deliver our service with the utmost honesty and integrity. Our commitment is evident in the following policies and procedures which are reviewed frequently:

- > Anti-Bribery and Allowable Gifts, Hospitality and Donations policies
- > Mandatory anti-corruption and anti-bribery e-learning for all employees, distributed at induction and then on a scheduled basis throughout their career
- > Anti-bribery risk is rated and held on every appropriate departmental risk register with controls. All registers are reviewed at regular intervals. An internal audit was carried out in financial year 2017 and all actions were completed shortly afterwards including face-to-face training where practical
- > Financial Crime Policy reviewed and updated during the year. It reflects the AA values, our reputation for financial probity, professionalism and integrity, and recognises that the Group has a duty to protect its members and customers
- > A fraud reporting inbox is monitored by our Fraud team
- > A whistleblowing policy encourages employees to confidentially raise concerns internally so that these can be investigated in an independent, timely and effective manner. This helps us to ensure that our commitment to conducting our business with honesty and integrity is met. During the year, 16 cases were escalated for review by HR and the Executive Risk and Compliance Committee, all have been investigated and concluded. Some of the consistent themes included allegations regarding employee conduct, management behaviour, discrimination and performance management
- > The Company Secretary team holds registers of Directors' interests and external appointments, situational and transactional conflicts of interest

Because of this approach we are pleased to report that we have received no enforcement action, fines, penalties or settlements in relation to corruption or bribery.

Safety

We are dedicated to providing a sustainable, expert and dynamic service to our customers that demonstrates we care by delivering operational excellence through high standards of health, safety and environmental (HS&E) management. In line with our policy, we aim to continually improve our HS&E performance, always seeking to reduce any risks. We believe in always doing the right thing and in doing it safely, without unnecessary risk to people's health or to the environment. We are committed to helping deliver UNSDG 8, Decent Work and Economic Growth and this is central to our management of health and safety.

Health and safety is a principal risk to how we do business in a sustainable and responsible way. The safety of our people, our members, customers, suppliers, partners and anyone else who may come into contact with our service is of fundamental importance to us.

The health and wellbeing of our people is critical to enable us to deliver the service our members and customers expect and deserve. To demonstrate this fundamental belief and commitment we are reporting this year's performance based on the principles of the Global Sustainability Standards Board Standard GRI:403:Occupational Health and Safety 2018 (details on how we manage OH&S are published on www.theaapl.com)

We are the recognised union for the AA, and we work closely with the business in relation to all aspects of health & safety, to make the working environment a safer place for our members and all employees... Working closely with all parts of the business has made the roles of the patrol, and the indoor staff, a safer place to work.

Grant Biggerstaff

IDU Branch Vice Chair & National Chair – Health & Safety

Key safety risks

As detailed within our principal risks (www.theaapl.com/about-us/business-model) safety is material to the successful operation of the AA. The most significant safety-related risks our people face when delivering service to our members and customers are:

RISK	CONTROL	PERFORMANCE
Manual handling	We control this risk through regular reviews of our systems of work and equipment design and by ensuring employees carrying out this type of work are regularly trained in the techniques we use to minimise the risk of injury. Towards the end of 2018, we utilised wearable tech, pioneered in the professional athletics world, to scientifically measure the movements and musculoskeletal impacts of the day-to-day tasks undertaken by our roadside patrols and technicians. As a result, we are now developing a programme to address the findings and improve these impacts, further reducing and controlling the risks associated with manual handling.	We have seen a 6% reduction in accidents involving this activity compared to last year.
Driving for work	We minimise this risk through driver assessment and training, maintenance and servicing regimes for our vehicles, deployment, telematics and navigation systems for our patrols and by minimising in-vehicle distractions in our fleet.	We have maintained last year's performance, making a slight improvement of 1% reduction in reported road traffic collisions.
Lone working	To minimise the risks associated with lone working we have in place 'man down' procedures and vehicle tracking systems. We also have support and guidance available relating to violence and abuse and how to minimise and manage this risk should it occur.	Compared to last year, we have achieved a reduction of 60% of accidents involving violence and abuse. We have, however, seen our near misses relating to this double. We believe this is due to the increased awareness of patrols understanding that behaviour of this nature is not acceptable and so must be reported. This will be monitored closely to ensure the increase is not identifying an underlying issue.
Slip, trip, falls	We control this risk in the offices through maintenance and inspection regimes, and through training and personal protective equipment (PPE) for our workforce who are delivering our service off site.	Compared to last year, we have achieved a 22% reduction in reported near misses involving incidents of this type. We have seen accidents increase by just over 15%, with the main increase being within the office environment. We undertook a major refurbishment project this year, encompassing every office space, which we believe has impacted this increase. This will be monitored closely during 2019 to ensure it is not identifying an underlying issue.

Accident performance

As we previously reported in our FY17 annual report and accounts, we saw an increase in our accident and lost time injury frequency rates in 2016, which we aimed to address and reverse through the implementation of our Take Care campaign. As the graph "frequency rates" shows, we have successfully improved our performance in both these areas, demonstrating the effectiveness of our campaign. We have also achieved continued improvement in the number of days lost, with our peak being seen in 2016 when we introduced a more robust and accurate data capture system.

The number of major injuries we report to the Health and Safety Executive (HSE) remains lower than the national rate for industries operating in a similar environment and our overall reportable incidents continues to be declining, evidencing the continual improvement we are achieving through our focus of safety.

Any employee who experienced a work-related injury this year and needed to take time off work as a result has either returned to or is expected to return to work.

We continue to maintain our record of zero fatalities.

We continue our record of zero reported diseases under the requirements of Reporting of Diseases and Dangerous Occurrences Regulations.

The profile of employees experiencing accidents reflects both the gender profile of the Company (see page 44) as well as the exposure risk faced by that group.

We monitor work-related accidents which have occurred to contractors while undertaking work on our behalf and are pleased to report that we had no reported incidents this year.

The risk of roadside working

This year, the industry felt the shock of the tragic deaths of three roadside technicians. Although these deaths were not AA patrols or directly linked to our work, we were greatly affected by these terrible events. As a result, we wanted to ensure that these tragedies were not repeated and so joined forces with other breakdown organisations to call for enhanced motorway safety rules to protect road users as well as recovery patrols. As a single voice from across the industry, we wrote to Road Safety Minister, Jesse Norman, calling for the introduction of a Slow Down, Move Over rule when drivers pass a broken-down vehicle or a recovery vehicle with flashing amber beacons. Within the letter, as an industry, we highlighted that "we have strengthened our resolve to work together to do all that we can to prevent similar incidents in the future."

As well as changes to the Highway Code, we have called on the Department for Transport to sponsor a THINK! road safety campaign highlighting the dangers faced by patrols and members of the public broken-down at the roadside. Since the beginning of 2018, all breakdown

organisations in the UK have experienced numerous cases where patrols have nearly been hit by a passing vehicle while attending a breakdown.

We remain an active member of the SURVIVE Group, an industry body that aims to make working at the roadside safer. This year, we led on the development of the "SURVIVE Safety Rules" for working at the roadside which were launched to the industry at the European Tow Show in September. These rules aim to drive safe behaviour through keeping essential safety processes simple and at the forefront of any roadside workers' mind. We have started to embed these rules with a direct communication to all our patrols and technicians, followed by integration into all our safety-related training to our front-line employees.

At the start of 2018, we partnered with a company to look at developing an innovative technology for the rear of our vehicles. We trialled a new chevron system within the livery on the rear of our vehicles which lit up and flashed, its aim being to further enhance our visibility at the roadside and increase the level of warning to passing motorists. Unfortunately, the trial identified that the longevity and reliability of the technology was not robust or reliable enough for us to use as an additional safety device. We are continuing to watch the market and other industries to identify other opportunities to improve the conspicuity of our operational breakdown vehicles.

Awards

The AA was honoured to be highly commended in the Office for Product Safety and Standards Regulatory Excellence Awards in June 2018. The awards recognise regulatory organisations, individual businesses and trade associations that have achieved positive outcomes through good practice and have demonstrated excellent use of better regulation tools and principles, such as Primary Authority, Better Business for All, the Regulators' Code and/or consideration of regulatory impact on business growth. The award we received was for the collaborative work we have carried out with Hampshire Fire and Rescue as part of the Primary Authority Partnership Scheme.

Partnerships

We have extended our Primary Authority Scheme to now include a Business Advice and Support Partnership (BAASP) with Hampshire County Council. This partnership now ensures that we have access to the right regulatory advice first time and provides a facility for Trading Standards (and other regulators co-ordinated by the partnership) to act in collaboration with us, supporting us in our aim to not only manage regulatory and compliance risks, but to also lead the way for our peers in improving industry standards. We are now exploring potential opportunities for us to supply Hampshire County Council with expert advice and support in their regulatory investigations, ensuring we are able to play our part in driving standards up in the sectors in which we operate.

Our members and customers

Monitoring the accidents that occur to our members and customers while we are delivering our breakdown service 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 experienced reportable incident rates of:

- > Breakdown activity: >0.1 (per 100,000 tasks)
- > Course provision activity: no reportable incidents

Environment

As a key part of our CSR strategy and to help deliver UN SDG 11, Sustainable Cities and Communities, we continue to manage our operations and delivery of products and services in a sustainable way. We seek to reduce our emissions, manage our waste and make efficient use of natural resources.

The AA was successful in the transition of our integrated HS&E management system to the new ISO 14001 standard which has led us to focus on both external and internal risks and opportunities which are relevant to our business operations and strategy. As a result, we have identified the following issues as our key risks and opportunities:

RISK	RISKS AND OPPORTUNITIES	OUR CONTROLS	OUR PERFORMANCE
Climate change	Please see the dedicated section for how we are managing this in support of UN SDG 13 Climate Action		
Waste	Risks <ul style="list-style-type: none"> > Non-renewable natural resource use > Pollution > Land use Opportunities <ul style="list-style-type: none"> > Waste reduction > Waste recycling > Changing employee behaviour 	<ul style="list-style-type: none"> > Measuring our waste > Recycling facilities in all offices > Introduction of reusable cups at all sites with discounts on drinks for anyone using them at our coffeeshops > Utilising the waste-to-energy disposal route where recycling cannot be undertaken > Installing printers which require active instruction to print and auto set to double sided printing 	<ul style="list-style-type: none"> > Zero office waste to landfill > Our waste generation per capita (tonnes/person) has decreased by almost 6% > Our overall waste tonnage (excluding construction related waste which was handled directly by the contractor) has increased by 5% due to major refurbishment projects at four of our main sites; however, we have ensured the waste from these projects has been dealt with responsibly with 56% sent for recycling and the remainder sent for energy recovery
Water use	Risks <ul style="list-style-type: none"> > Natural resource use Opportunities <ul style="list-style-type: none"> > Water use reduction > Changing employee behaviour 	<ul style="list-style-type: none"> > Measuring water use > Monthly reporting > Water management plans for each site > Implementing water reduction initiatives such as fitting push-taps in our washrooms 	<ul style="list-style-type: none"> > We are pleased to report that this year, despite a slight increase of just under 3% in overall usage due to our sites having greater headcount, our YTD water consumption per capita (m³/person) has shown a decrease of almost 6%

Climate change

As identified by the special report issued by the Intergovernmental Panel on Climate Change in 2018, climate change is one of the most significant risks our society faces. With climate change identified as our most significant external risk, our key aims are to control, review and reduce our greenhouse gas (GHG) emissions through the implementation of effective strategies and programmes to manage these in a way which is integral to our business. Our approach to this challenge is on the following page.

Our focus includes both internal opportunities such as the decision to review our targets to ensure that they are properly focused on this impact and our wider responsibilities to customers and the public to help inform them of practical actions they can take to reduce their climate related impacts. This year, we have also undertaken the CDP's climate change assessment (formerly the Carbon Disclosure Project). The CDP is a global disclosure system for investors, companies, cities, states and regions which aims to make environmental reporting and risk management (specifically climate change related for our operation) a business norm, driving transparency, insight and action towards a sustainable economy. This has provided us with a benchmark and helped identify areas where we can develop further.

Internal climate risks and opportunities		External climate risks and opportunities
OUR FLEET	OUR BUILDINGS	PUBLIC USE OF VEHICLES
RISK		RISK
<ul style="list-style-type: none"> > Fuel use > Emissions > Air quality 	<ul style="list-style-type: none"> > Energy use > Emissions > Non-renewable natural resources 	<ul style="list-style-type: none"> > Fuel use > Emissions > Air quality
OPPORTUNITIES		OPPORTUNITIES
<ul style="list-style-type: none"> > Emerging vehicle technology > Changing driver behaviour 	<ul style="list-style-type: none"> > Renewable energy > Energy efficiencies > Emerging building technologies 	<ul style="list-style-type: none"> > Emerging vehicle technology > Changing driver behavior > Infrastructure

For our operational fleet, the main generator of emissions within our fleet, we control this risk as well as leverage the opportunities, through the following action which we have undertaken this year:

- > We have reviewed and revised our target relating to our operational fleet emissions: reduce operational vehicle emissions per job by 20% by 2020 compared to 2015 and are pleased to report we have so far achieved a 16% reduction compared to our baseline
- > All patrols have access to an app which provides them with real time feedback on how they are driving and areas which can be improved
- > We continually review our deployment of resources to minimise unnecessary mileage

- > We have reviewed the weight specification of our recovery vehicles and trialled a three-car transporter to understand the impact this will have on our emissions
- > Our fleet team continued to review opportunities to use low emission commercial vehicles and alternative fuels as they came onto the market, working closely with the Fleet Transport Association to monitor industry developments
- > Our Senior Management Team continued its monthly review of the fleet performance

As well as our operational vehicles, we have company cars on our fleet that have the same risks and opportunities. We manage their risk through:

- > Regularly reviewing our company car choices ensuring low carbon and full electric vehicles are available to employees. We are pleased to report that over half of this fleet are now hybrid or plug-in hybrid vehicles. The average CO2 emissions of our company car fleet show continuing improvement, reducing from 89g/km in 2017 to 81g/km in 2018
- > Encouraging online conferencing to minimise travel between offices for business meetings

For our buildings, we control our emission risk as well as leverage the opportunities, through the following action:

- > We have reviewed and revised our target: to reduce building emissions (market based) per ft²* by 60% by 2020 compared to 2015 and are pleased to report we have so far achieved a 45% reduction compared to our baseline
- > Our programme of energy monitoring and savings initiatives has continued throughout our offices. Our focus this year has been an investment of almost £1m on LED lighting at all the offices which underwent major refurbishment
- > We have a dedicated energy manager who focuses on effective day-to-day energy management within our buildings, continually looking for improvements and efficiencies in the way our sites are managed through an energy improvement programme
- > We took part in WWF's Earth Hour in March 2018 when all non-essential lighting was switched off in our buildings at 20:30 for one hour, as part of the work we as a company have been doing in our buildings to run them efficiently

* Net lettable

We recognise that our service supports people using their vehicles which contributes to climate change through the emissions they generate. Because of our drive to be not only a responsible and sustainable business, but to also support our wider community in becoming more sustainable, we have identified this as an area in which we are able to have a positive impact and so have leveraged this opportunity in the following ways:

- > We develop public information (published on theaa.com) to help minimise the impacts of vehicle use on the environment through useful tips and guidance such as vehicle maintenance, eco driving techniques, and vehicle maintenance
- > We provide traffic news and route planning to optimise journey times
- > Our 'Ask Edmund' advice portal invites questions on many motoring topics, including climate-related issues such as the introduction of the Ultra-Low Emission Zone in London, and our "living with an electric car" feature provides an independent view on practical issues to support and raise awareness of this emerging market
- > All 4,000 or so AA approved hotels and B&Bs have been offered free electric vehicle (EV) charge points thanks to our strategic partnership with BP Chargemaster. This initiative is directly contributing to building the infrastructure needed to support the rise of EV and plug in hybrid vehicles
- > Our driver training business continues to promote environmentally responsible driving to our pupils and corporate customers. Our DriveTech business works alongside our business partners to support them in making changes to improve their fuel efficiency within their fleets and/or vehicles
- > Our Car Genie product supports eco driving through monitoring customers' driving style and providing individual feedback and bronze, silver and gold eco badges as their driving performance improves
- > We continue to support innovation in vehicle technology and have partnered with the BP Chargemaster POLAR network to allow free electric vehicle charging for our members and customers, UK-wide, who are stranded without charge. Our AA app has charging points identified in our mapping system allowing members and customers to find the nearest location if charging is needed

Reduction in emissions by 16%

TARGET 20%

4,000 AA approved hotels offered free electrical vehicle charging points

Reduction in emissions by 45%

TARGET 60%

Recognition

We have participated in the Chartered Institute of Procurement and Supply (CIPS) Sustainability Index since 2015. This year, we have achieved our highest ever score, outperforming the average company within our sector and size. In the economic, social and environment categories we achieved an 89%, 98% and 93% rating respectively.

We continue to be a member of the FTSE4Good Index which is designed to measure the performance of companies demonstrating strong environmental, social and governance (ESG) practices.

We completed the RobecoSAM Sustainability Assessment and have been rated in the 100th percentile in the Diversified Consumer Services Sector.

We undertook the CDP assessment for the first time this year. We are very pleased to report that we achieved a climate score of B-, which is in line with the sector and regional average, and a supplier engagement score of B-, which is above average for our sector.

Summary GHG footprint

The Group's total greenhouse gas emissions for 2018/19 are listed in tonnes of carbon dioxide equivalent (tCO₂e). The majority of our emissions stem from our operational fleet (87%). 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.

We are pleased to report that we have achieved decreases in all areas except in Scope 2 market-based emissions and the property intensity measurement. This is due to an increase in our supplier-specific (market-based) emissions factors compared to FY18, rather than an increase in electricity consumption.

GHG EMISSIONS

Emissions source	tCO ₂ e 2019	tCO ₂ e 2018	tCO ₂ e 2017	% change to ARA 2018
Scope 1 emissions (direct combustion of fuels in stationary and mobile sources, and fugitive emissions)	41,388	41,889	44,922	1.2% Decrease
Scope 2 emissions, market-based (emissions from generation of purchased energy in owned or controlled equipment and operations, using a supplier-specific emission factor)	3,228	2,950	5,480	9.4% Increase
Scope 2 emissions, location-based (emissions from generation of purchased energy in owned or controlled equipment and operations, using a regional emission factor)	2,947	3,708	4,887	20.5% Decrease
Total emissions (market-based)	44,617	44,839	50,402	0.5% Decrease
Out of scope emissions (emissions from the biofuel content in forecourt diesel and petrol)	861	1,045	996	17.6% Decrease
Fleet intensity measurements 1 (tCO ₂ e/job) (emissions from operational fleet divided by the number of operational job tasks completed)	0.01012	0.01087	0.01122	6.9% Decrease
Property intensity measurements 2 (tCO ₂ e/ft ²) (market-based emissions from energy use in UK Corporate portfolio (electricity and natural gas consumption divided by floor area))	0.00947	0.00843	0.01342	12.3% Increase

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 2017. Overseas factors have been obtained from national agencies.

The GHG reporting period aligns with financial statements 2018/19. <1% of consumption data is estimated using GHG Protocol guidelines. Boundaries are defined using the operational control approach. Emissions from 'AA The Driving School Agency Limited' are considered out of scope, it operates as a franchise and AA plc has neither equity rights nor control over franchisees. Home-based teleworkers are excluded from GHG reporting.

Square footage of buildings has been aligned to our net lettable area in line with our company targets.

Our suppliers

Our suppliers

Our Supplier Code of Conduct specifies the minimum standards of behaviour we expect of our approved suppliers. It identifies the following behaviours which we deem as important and therefore wish to see from our suppliers:

- > Ethical
- > Environmental
- > Health and safety
- > Employment standards
- > Proprietary information

Through our new supplier onboarding system, we can report that 100% of all new suppliers have signed up to this code. As reported last year, we had targeted 75% of our existing preferred suppliers to be signed up to the code by the end of FY18; because our focus has been delivering the first phases of the supplier portal project, we have not made significant headway on this so have not achieved the target. We are now in the process of reviewing all legacy suppliers to bring them onto the supplier portal which will address this issue.

Human Rights & Modern Slavery

This year, we have formalised our approach to human rights and, as a result, now have a single policy which has brought into one place the work and control we have in place to protect these. We recognise that our greatest potential risk is with our suppliers; therefore, the policy has a strong focus on them, and we are now taking steps to ensure our key, critical, strategic suppliers are made aware of the policy and have signed up to the ethics which it requires of them. Additionally, the policy is also available for all suppliers to access via our website at www.theaapl.com.

Our Modern Slavery Statement demonstrates our commitment to continually ensuring that the suppliers selected to work with us are of the highest possible standard and are equally committed to the fair and ethical treatment of employees, customers and suppliers. Additionally, it links to other key policies which are supportive of the statement:

- > Sustainability and Social Responsibility Policy
- > Supplier Code of Conduct
- > Business Standards Policy
- > Procurement Policy
- > Financial Crime Policy

Supplier management

We understand the importance supplier management holds for a successful business and have committed through active investment in best-in-class software, ensuring that processes and procedures for suppliers are standardised.

In February 2018, we commenced implementation to deliver a suite of e-procurement, cloud-based products to improve the identification and management of risk, increase efficiency and improve performance across our supply chain.

In May 2018, the first wave of the project went live. The new functionality which is now available has given us the ability to have:

1. One auditable process for onboarding a supplier which captures all approval requirements, including information security, data protection, health, safety & environmental management, brand and regulatory compliance. This provides improved corporate governance for our procurement of goods and services
2. The ability for the procurement and legal team to work seamlessly reviewing contracts simultaneously and ensuring that all approvers and signatures for newly created contracts are in line with the AA's corporate governance
3. Effective, swift and auditable engagement of any supplier we need to have conversations with, regarding their suitability/ability to deliver against the contract
4. The ability to actively monitor any risk events involving our principle suppliers, including those related to:
 - a. Regulatory and legal
 - b. Environmental and social
 - c. Financial
 - d. Operational

This first wave was carried out to a very high standard, and the project team has been recognised for the quality principles adopted during the project and has been awarded the SAP Quality Award for Fast Delivery.

The second wave of the project commenced in mid-November and will deliver a joined-up purchase-to-pay system, giving our suppliers:

- > A more streamlined payment process
- > A reduction in errors and delays
- > A reduction in exceptions

All elements will become fully integrated and will ultimately give us an intuitive, effective and fully auditable system, with a host of supplier management information instantly available.

Roadside contractor management

Throughout 2018, a dedicated team has carried out regular performance reviews with each contractor to ensure that the highest level of service is being delivered to our members and customers. Over 90% of all roadside contractors have been fully audited this year, verifying that they are complying with relevant legislation and AA standards. In addition to our audit process we require all our roadside and recovery contractors maintain PAS43, the UKAS accredited standard for the safe working of vehicle breakdown, recovery and removal operations.

Data and privacy compliance

As identified in the risk section of this report on page 35, data protection and management are a principal risk for us and our external stakeholders, including members, customers, employees, business clients and suppliers. A Group-wide GDPR programme was implemented to enable and ensure compliance with the GDPR and enhance the Company's governance and management of its customer and employee data.

The programme is overseen by an executive steering group chaired by the Finance Director. As a result of this programme, a data and privacy compliance function has been established under the new Data Protection Officer who was appointed in January 2018, reporting directly to the Group General Counsel and Company Secretary, to support the business to comply with its legal and regulatory obligations and to enable members, customers and employees to exercise their rights under the GDPR.

The Group will continue to manage, strengthen and enhance data protection and privacy management to enable us to appropriately manage risk across our businesses. Doing so will help to protect the Company while enabling necessary data use across the business for efficient operation and growth opportunities. This will continue to be important, given the importance of data to the Group's strategy.

Compliance and the protection of data will continue to be actively monitored by our Data Protection Officer who, together with the business, will ensure potential issues are reported, investigated, monitored and reviewed so that we can learn from incidents to help prevent them in the future.

Cyber security

To help protect the Group from cyber security risk, we also have a number of information security policies and controls to further protect personal data that we hold. To further strengthen our management of this risk, we undertook the following action this year:

- > A new Head of Information Security was appointed in October 2018

- > We undertook a detailed review of existing operational security tools, which included an information security maturity assessment. As a result of this, we are building a strategy of aligning our compliance obligations under a single Information Security Management System aligned to the International Standard for Information Security (ISO 27001). This will provide a solid foundation in growing our capability maturity in the cyber security space and our strategic goal is to be independently assessed as "ahead of our industry peers" – our policies and standards will provide guidance for the business to create consistent, fit-for-purpose procedures, mitigating our current cyber risks
- > We separated security operations within IT operations, while the governance, risk and compliance (GRC) element remains under the head of information security. This has enabled us to focus on holistic information security, rather than technical security risk in isolation
- > Activities were undertaken to align information security policies and standards to those created under the GDPR programme, tackling security and privacy risk collectively
- > A re-baselining of the information security risk register, aligned to ISO 27001 (the international standard for information security) has been undertaken, with alignment of the risk treatment plans to "inflight" IT improvement projects

NON-FINANCIAL INFORMATION STATEMENT

Reporting requirement	The AA's key policies and standards which govern our approach and controls	Where this is referenced in the report
Environmental matters	Health, Safety and Environmental Policy (E) Health, Safety and Environmental Management System (I) Sustainability and Social Responsibility Policy (E) Prevention and Control of Environmental Incidents Policy (I) Waste Management and Minimisation Policy (I)	Environment (p47)
Company employees	Business Standards Policy (I) Terms of Employment and Policy Guide (I) Working Time Policy (I) Absence policies including Absence Management, Maternity, Adoption and Family Leave (I) Learning, development and performance policies, including Managing Performance, Performance and Development Behaviours (I) Equality and Diversity Policy (I) Health, Safety and Environmental Policy (E) Health, Safety and Environmental Management System (I) Sustainability and Social Responsibility Policy (E)	Principal risk outstanding service (p34) Board of Directors diversity (p44) Nomination Committee Report (p64) Our People (p41) Our People (p43) Our People (p44) Safety (p45)
Social matters	Sustainability and Social Responsibility Policy (E) Treating Customers Fairly Policy (I) Vulnerable Customers Policy (I) The AA Charitable Trust (UK charity no. 1125119) (E)	A Global View (p40) Our People (p43) A Local View (p40)
Respect for human rights	Equality and Diversity Policy (I) Human Rights Policy (E)	Our People (p44) Our Suppliers (p50)
Anti corruption and anti bribery	Anti-Money Laundering Policy (I) Anti-Bribery and Allowable Gifts, Hospitality and Donations Policy (I) Conduct Risk Policy (I) Conflicts of Interest Policy (I) Financial Crime Policy (I) Insider and share policies, including Insider and Market Abuse, Insider Information Disclosure and Share Dealing Code Policy (I) Whistleblowers Policy (I)	Our People (p44)
Due diligence and outcome	Risk Management Framework Policy (I) Annual Internal Audit Plan (I) Risk Register (I) ISO 14001, ISO 9001 and OHSAS 18001 certification for specified business areas (E)	Risk Committee Report (p66) Our governance structure (p61) Risk Committee Report (p66)
Business model		Our business model (p7)
Non-financial key performance indicators		Key performance indicators (p24) Safety (p45) Environment (p47)

I – Group policies, standards and guidelines that are published internally only

E – Group policies, standards and guidelines that are published externally on theaapl.com

Chairman's governance overview

As we consider the year ahead, our governance framework and culture of openness and transparency will include robust oversight of strategic implementation, mindful of the intrinsic link between revenue growth and shareholder value.

John Leach .
Chairman .

I am pleased to present the governance report for the financial year ended 31 January 2019 which is my first full year as Chairman and fifth year as a member of the Board.

A strengthened Board

During the year, there have been several changes to the AA plc Board of Directors (the Board), including the appointment of two women. Cathryn Riley was promoted in February 2018 from our regulated insurance board to the main plc Board and replaced Andrew Blowers as Chair of the Risk Committee. Cathryn has considerable experience in insurance. Steve Barber joined as Non-Executive Director (NED) in June 2018 and replaced Andrew Miller as Chair of the Audit Committee. Steve has a wealth of finance and audit experience and his appointment has strengthened both the Board and the committees. In July 2018, we welcomed Mark Brooker as NED. Mark has significant experience of digital businesses and, as we increase our focus on building improvements to our digital offering, his skills and experience complement the existing Board members. Nadia Hoosen was also appointed as Group General Counsel and Company Secretary in July 2018 to replace Mark Millar. Nadia has a considerable amount of experience in regulated consumer-facing FTSE 250 companies. The new mix of professional skills and qualities will ensure the best collective outcome.

Good governance underpins strategic delivery and value creation

While new appointments create a period of change as new members settle in and relationships form, the results of our internal Board evaluation carried out in December were very positive. The review confirmed that the Board is a strong team with enhanced capability and unified in the view that good governance underpins strategic delivery and long-term value creation.

Executive Committee Changes

As we focus on the delivery of our strategy announced at the beginning of the 2019 financial year, we are aware of the challenges presented by our share price and the need to rebuild trust and confidence with our shareholders.

In addition to Board changes, we have therefore also enhanced the capability of the Executive Committee in accordance with requirements under the New Code, including a new Chief Innovation Officer, Chief People Officer, and Group General Counsel and Company Secretary, all appointed to the Executive Committee to help drive the new strategic objectives.

Incentivising in a difficult climate

During the year, we have consulted extensively with our major shareholders on several Company matters including consultation on how to best incentivise our Executive Committee and Senior Management Team, while recognising that we must invest for the future and retain talented key hires.

Our incentives have taken into account shareholder feedback while balancing the needs of the business.

During the 2019 financial year, our key corporate governance highlights have been as follows:

- > Recruitment of NEDs through external search to enhance the mix of skills and experience on the Board required to deliver growth in Roadside and Insurance. This is discussed in more detail in the Nomination Committee Report on pages 64 to 65.
- > Internal Board evaluation and reinvigoration of Board processes to ensure that the members have the resources they need to function effectively and efficiently. This is discussed in more detail on page 60.
- > Early execution of refinancing at an opportune time in the credit cycle to extend the effective maturity date of our debt and provide the headroom to deliver on our plans for growth. This is discussed in more detail in the Financial Review on pages 29 to 32.
- > Review of Group structure and enhanced governance of the regulated Insurance subsidiaries for strategic purpose and to build resilience. This is discussed in more detail on page 61.
- >

Comprehensive shareholder consultation of nearly 60% of the shareholder base to develop and agree management incentives. This is discussed in the Directors' Remuneration Report on pages 72 to 84.

The Board's future focus

As we consider the year ahead, we acknowledge that we are only one year into our new strategy, and our governance programme will include robust oversight of strategic implementation, mindful of the intrinsic link between revenue growth and shareholder value. The Board shapes culture through its behaviours and our role is to embed our vision, values and attitudes throughout the Company so that it can deliver successful and sustainable business through a high-performance culture. This will include a review of the opportunities and risks to the future success of the business and consideration of how governance contributes to that success. A key item for our agenda is deepening our succession plans at Board, executive and management levels so that we are resilient to future change and improve our diversity and capability.

Other key agenda items for the 2020 financial year are discussed on page 59.

Our compliance with the required regulatory and statutory standards for a premium listed company is reflected throughout this report, including effective embedding of the UK Corporate Governance Code 2018 (the New Code).

John Leach

Chairman

2 April 2019

Governance Report

Compliance with the Code

During the year ended 31 January 2019, the AA complied with all provisions of the Code and our key governance highlights are summarised below:

Code section	Key work during the year	Page references
Leadership	<ul style="list-style-type: none"> > Key Board changes to enhance composition, independence and skill set > Improving diversity by appointing a female NED and a female Company Secretary during the period > Refinancing in line with capital management strategy > Overseeing significant corporate and commercial transactions 	FIND OUT MORE ON P64-65 AND 29-32
Effectiveness	<ul style="list-style-type: none"> > Internal Board evaluation > Review of Board evaluation process carried out by the new Company Secretary 	FIND OUT MORE ON P60
Accountability	<ul style="list-style-type: none"> > Enhanced visibility and profile of risk in organization > Conducted an auditor tender process, recommended a change and transitioned to PwC as new auditor of the Company 	FIND OUT MORE ON P66-71
Remuneration	<ul style="list-style-type: none"> > Extensive consultation with shareholders regarding remuneration policy > Refreshment of Remuneration Committee membership, while continuing to comprise only independent NEDs 	FIND OUT MORE ON P72-84
Relations with shareholders	<ul style="list-style-type: none"> > Extensive and constructive shareholder engagement 	FIND OUT MORE ON P62-63

Preparing for the New Code

Looking ahead to the 2020 financial year, we prepared the following matters during the year:

Code section	Key preparation during the year	Page references
Leadership and purpose	<ul style="list-style-type: none"> > Remuneration Chair will attend employee forums on a bi-annual basis 	FIND OUT MORE ON P73
Division of responsibilities	<ul style="list-style-type: none"> > Reviewed NED time commitments > Rolling one-year NED contracts in place > Review of Board process and policies 	FIND OUT MORE ON P60 AND 80
Composition, succession and evaluation	<ul style="list-style-type: none"> > Greater clarity on skills and development of Board skills matrix > Plans to develop a diverse pipeline for succession 	FIND OUT MORE ON P64-65
Audit, risk and internal controls	<ul style="list-style-type: none"> > Enhanced disclosure of emerging risks > Appointment of a new Audit Chair with recent and significant financial experience > Continuing review of the internal financial controls and risk management systems 	FIND OUT MORE ON P33-35 AND 66-71
Remuneration	<ul style="list-style-type: none"> > Reviewed remuneration of NEDs in accordance with the Company's Articles, duties and time commitments > Design of schemes to promote long-term shareholdings that support alignment with shareholder interests and the New Code > Reviewed workforce remuneration and related policies and the alignment of incentives and rewards with culture 	FIND OUT MORE ON P72-84
General	<ul style="list-style-type: none"> > Developed Terms of Reference of the Committees to align with the New Code 	FIND OUT MORE ON P64-84

Board of Directors

The Board is collectively responsible for the long-term success of the Company and for building successful relationships with a range of stakeholders. 75% of the Board comprises independent Non-Executive Directors (NEDs).

John Leach

Chairman

Appointment: John joined the AA as an independent NED in June 2014 and became Senior Independent Director (SID) on 13 November 2014. He was independent when promoted to Chairman on 1 August 2017.

Responsibilities: As Chairman, John provides leadership of the Board and promotes a culture of openness and debate. As Chairman, he upholds the highest standards of corporate governance and meets regularly with the NEDs and Company Secretary to discuss governance matters. John is also a member of the Nomination Committee.

Career and experience: John has served on public company boards as either Chairman, CEO or CFO for the past 37 years. He began his career as an Articled Clerk and subsequently as a Partner in a firm of chartered accountants. He has considerable experience in turnaround situations in the industrial and service sectors sitting on, among others, Brent Walker (including William Hill and Pubmaster), Myson Group and Luminar.

Most recently, John was CEO of Hermes UK Focus Funds and a member of Dometic AB. He is a Fellow of the Institute of Chartered Accountants and a Fellow of the Association of Corporate Treasurers.

Simon Breakwell

Chief Executive Officer (CEO)

Appointment: Simon joined the AA in September 2014 as a NED. He was appointed Interim CEO on 1 August 2017 and then CEO on 25 September 2017.

Responsibilities: As CEO, Simon has responsibility for driving and implementing the strategy approved by the Board and has oversight of governance matters.

Career and experience: Simon brings significant digital and travel experience to the role. He was a Founder of Expedia, a start-up within Microsoft, and ran the North American Operations. As President of Expedia International Inc. Simon started up and led the growth of the business in the Europe, Middle East, and Africa regions, including both the Hotels.com and Expedia brands. He joined Expedia as a main Board Director in 1996 and served for ten years. More recently, Simon was responsible for establishing the European operations for Uber.

He has been Chairman or Non-Executive Director of various companies, among them, Expedia Inc., HomeAway Inc., OneFineStay, Believe Digital and Tiqets BV. Simon is currently a Venture Partner at TCV, one of the leading global mid cap funds.

Martin Clarke

Chief Financial Officer (CFO)

Appointment: Martin joined the AA in June 2014 as part of the management buy-in team.

Responsibilities: As CFO, Martin has ultimate responsibility for financial planning and overseeing risk management, treasury and internal controls. Additionally, he leads on corporate transactions and focuses on investor relations and improving the capital structure of AA plc.

Career and experience: Martin has over 30 years of private equity experience, principally in the role of Partner and Global Head of Consumer for Permira between 2002 and 2011. Prior to Permira, Martin worked at Cinven and Silverfleet, the private equity arm of Prudential plc. He has led a number of major transactions and has sat on the boards of several leading companies including New Look, Gala Coral and Galaxy Entertainment Group, which is listed on the Hong Kong Stock Exchange.

Andrew Blowers

Senior Independent Director (SID)

Appointment: Andrew joined the AA in September 2014 as an independent NED and was appointed as SID on 1 August 2017.

Responsibilities: As a NED, Andrew provides objective insight and critical debate to Board discussions on strategic, financial and governance matters and brings significant insurance experience. Andrew is Chair of the Nomination Committee and a member of the Remuneration Committee. Andrew is Chair of AA Insurance Holdings Limited (AAIHL), the Group's insurance holding company.

Career and experience: Andrew has significant experience in insurance and financial services. He established and sold several successful insurance operations during his 30-year career in the insurance industry, the last being the innovative online insurer Swiftcover, and he was previously an Executive Director of Churchill Insurance. He has also advised several private equity operations, the Consumers' Association and the Financial Ombudsman Service in relation to various insurance matters.

Andrew was awarded an OBE in 2009. He is also a NED of Telecom Plus plc.

Cathryn Riley

Non-Executive Director

Appointment: Cathryn joined the Board in February 2018 as an independent NED.

Responsibilities: As a NED, Cathryn provides objective insight and critical debate to Board discussions on strategic, financial and governance matters and brings significant insurance experience. Cathryn became Chair of the Risk Committee on 28 February 2018 and is a member of the Audit Committee. Previously, she was NED and Chair of the AA Group's insurance broker, Automobile Association Insurance Services Limited (AAISL) from January 2015 to June 2018.

Career and experience: Cathryn has had a wide-ranging career covering insurance, customer services, IT, operations and human resources. She currently holds NED roles at Equitable Life, International Personal Finance plc, Chubb European Group SE and Chubb Underwriting Agencies Ltd. Cathryn was Group Chief Operations Officer at Aviva Plc and a member of the Group Executive Committee. Other experience includes management consultancy at Coopers & Lybrand and General Manager of Transformation at BUPA.

Cathryn was appointed NED of the Group's insurance holding company, AAIHL, in June 2018.

Suzi Williams

Non-Executive Director

Appointment: Suzi joined the AA in October 2015 as an independent NED.

Responsibilities: As a NED, Suzi provides objective insight and critical debate to Board discussions on strategic, financial and governance matters and brings significant marketing and brand experience. Suzi is the Chair of the Remuneration Committee and is a member of the Nomination and Risk Committees.

Career and experience: Suzi has over 30 years' experience in marketing, brand and innovation for leading consumer, media, technology and service brands. From 2005 to 2016 she was Chief Brand and Marketing officer at BT, leading not only their UK business, but also their B2B efforts across 150 countries. Before that she held senior executive roles at Orange, BBC Worldwide, KPMG and Procter & Gamble. In 2018, Suzi was invited to join The England & Wales Cricket Board creating the new Cricket SuperLeague. She is a Fellow of the Marketing Society and an Advisor to Women in Marketing.

Mark Brooker

Non-Executive Director

Appointment: Mark joined the AA in July 2018 as an independent NED.

Responsibilities: As a NED, Mark provides objective insight and critical debate to Board discussions on strategic, financial and governance matters and brings significant digital experience. Mark also became a member of the Audit and Risk Committees on his appointment to the Board.

Career and experience: Mark holds a Master's degree in Engineering, Economics and Management from Oxford University. He spent 17 years in investment banking, advising UK companies on equity capital raising, and M&A at Morgan Stanley and Merrill Lynch.

Mark was then Chief Operating Officer (COO) at Betfair, one of Europe's leading online gaming businesses, with responsibilities for all operations outside the USA, including commercial management, product development and customer service across Sportsbook, Exchange and Gaming products.

Mark then became COO of Trainline, the European tech company and leading independent rail retailer, where he had responsibility for the UK and International consumer and B2B businesses including the Marketing and Product functions.

Mark is also a NED at Equiniti Group plc and William Hill plc.

Steve Barber

Non-Executive Director

Appointment: Steve joined the AA in June 2018 as an independent NED.

Responsibilities: As a NED, Steve provides objective insight and critical debate to Board discussions on strategic, financial and governance matters and brings significant financial experience. Steve became the Chair of the Audit Committee on 11 June 2018 and is a member of the Risk and Remuneration Committees.

Career and experience: Steve has over 30 years' experience in accountancy. He was a Senior Partner with PricewaterhouseCoopers and he was also Finance Director of Mirror Group plc. As a NED, he served for 10 years as Audit Committee Chairman at Next plc and has also been Audit Committee Chairman of Domino Pizza Group plc. Steve currently holds a NED position at Fenwick Limited and is a member of the steering group of the Audit Quality Forum and a founder of The Objectivity Partnership.

Nadia Hoosen

Group General Counsel and Company Secretary

Appointment: Nadia joined the AA in July 2018.

Responsibilities: The Company Secretary is responsible for advising on corporate governance matters, working closely with the Chairman, SID and Board of Directors. Nadia attends all PLC Board and Committee meetings and leads all of the legal and regulatory aspects of the AA's business and transactions. She also has oversight of the data and privacy compliance function.

Career and experience: As a qualified solicitor,

Nadia has 17 years of legal and regulatory expertise, and spent the majority of her legal career in house within regulated consumer facing, technology, media and telecommunications environments at FTSE 250 companies. Nadia was previously Group Legal Director & Deputy Company Secretary at TalkTalk Telecom Group plc. She also held positions at The Carphone Warehouse Group plc prior to its merger with Dixons Retail plc.

Board skills matrix

	Strategy	Transformation	Insurance	Brand & marketing	Technology	Digital	Regulated business	Accounting	Corporate transactions	Pensions	Health & safety
John Leach	✓	✓	✓					✓	✓	✓	✓
Simon Breakwell	✓	✓		✓	✓	✓			✓		✓
Martin Clarke	✓	✓	✓				✓	✓	✓		✓
Andrew Blowers	✓	✓	✓	✓		✓	✓		✓		
Cathryn Riley	✓	✓	✓		✓		✓			✓	✓
Suzi Williams	✓	✓		✓			✓				✓
Mark Brooker	✓	✓		✓	✓	✓	✓	✓	✓		✓
Steve Barber	✓	✓				✓	✓	✓	✓	✓	✓

Board attendance

Director	Date appointed to Board	Attended/Max possible
John Leach Chairman (from 1 Aug 2017)	26 Jun 2014	10/10
Simon Breakwell CEO (from 1 Aug 2017)	17 Sep 2014	10/10
Martin Clarke CFO	26 Jun 2014	10/10
Andrew Blowers SID (from 1 Aug 2017)	25 Sep 2014	10/10
Cathryn Riley ¹ NED	28 Feb 2018	8/9
Suzi Williams NED	1 Oct 2015	10/10
Mark Brooker ¹ NED	10 Jul 2018	5/6
Steve Barber NED	11 Jun 2018	6/6
Andrew Miller ² NED (resigned 7 Jun 2018)	26 Jun 2014	0/3

Notes to the attendance table:

1 Cathryn Riley and Mark Brooker were unable to attend one meeting each due to business commitments that were planned before they joined the Board.

2 Andrew Miller was unable to attend three meetings due to other business commitments prior to his resignation.

A number of unscheduled Board meetings were held during the year at short notice to discuss specific matters. These meetings are not reflected in this table.

Executive Committee

The Executive Committee is responsible for the day-to-day delivery and execution of the AA's strategy, taking direction from the Board.

Simon Breakwell

CEO

Appointment: Simon joined the AA in September 2014 as a NED. He was appointed Interim CEO on 1 August 2017 and then CEO on 25 September 2017.

Responsibilities: As CEO, Simon has responsibility for driving and implementing the strategy approved by the Board and has oversight of governance matters.

Career and experience: Simon brings significant digital and travel experience to the role. He was a Founder of Expedia, a start-up within Microsoft, and ran the North American Operations. As President of Expedia International Inc. Simon started up and led the growth of the business in the Europe, Middle East, and Africa regions, including both the Hotels.com and Expedia brands. He joined Expedia as a main Board Director in 1996 and served for ten years. More recently, Simon was responsible for establishing the European operations for Uber.

He has been Chairman or Non-Executive Director of various companies, among them, Expedia Inc., HomeAway Inc., OneFineStay, Believe Digital and Tiqets BV. Simon is currently a Venture Partner at TCV, one of the leading global mid cap funds.

Martin Clarke

CFO

Appointment: June 2014

Responsibilities: As Chief Financial Officer, Martin has ultimate responsibility for financial planning and overseeing risk management, treasury and internal controls. Additionally, leads on corporate transactions and focuses on investor relations and improving the capital structure of AA plc.

Career and experience: Martin has over 30 years of private equity experience, principally in the role of Partner and Global Head of Consumer for Permira between 2002 and 2011. Prior to Permira, Martin worked at Cinven and Silverfleet, the private equity arm of Prudential plc. He has led a number of major transactions and has sat on the boards of several leading companies including New Look, Gala Coral and Galaxy Entertainment Group, which is listed on the Hong Kong Stock Exchange.

Janet Connor

Managing Director, Insurance

Appointment: August 2014

Responsibilities: As the CEO of AAISL, Janet has accountability for the AA's Broking Operation.

Career and experience: Janet is a chartered director, Fellow of the Institute of Directors and Fellow of the CIPD. She has pursued a successful career in consumer financial services across retail banking and insurance. Prior to joining the AA, Janet held Managing Director roles in general insurance and latterly she was managing director of RSA plc's brand, More Than. Previous to this, Janet ran Ageas-owned over-50s insurer RIAS from 2006 to 2011. Janet is a NED of Vanquis Bank, part of the Provident Financial Group.

Linda Kennedy

Chief People Officer

Appointment: January 2019

Responsibilities: Linda is responsible for the development and execution of the People Strategy to support the business and delivering the People agenda for the Group. Key areas of focus are ensuring that the business has the right talent to deliver its strategic objectives, assessing and monitoring culture and ensuring the appropriate levels of capability and experience are effectively deployed across the organisation. Linda is a key attendee on both the AAISL and AA plc Remuneration Committees.

Career and experience: Linda has over 30 years' HR experience working at the senior level in both national and international organisations. Prior to joining the AA, Linda was Group HR Director for SIG, a FTSE 250 company, for four and a half years. Previously, Linda has held senior HR Director and Change roles with Yell, EE, Serco, Williams Lea, Arney, Brambles Group and BHP Billiton. She is a Master of the Institute of Linguists, speaking French, German and Spanish, and a Fellow of the CIPD.

Ollie Holden

Chief Information Officer

Appointment: November 2017

Responsibilities: Ollie is accountable for defining and implementing the IT strategy for the Group, shaping the digital transformation and providing robust IT services to customers and employees. Ollie is also responsible for Information Security.

Career and experience: Ollie has highly relevant experience leading change with more than 20 years' IT and transformation experience. As a senior manager within Accenture, he led a number of IT transformation programmes for financial services clients. He has also held IT and change leadership positions at LV= and TalkTalk, and has advised numerous companies on the improvement of their IT and change capabilities.

Nadia Hoosen

Group General Counsel and Company Secretary

Appointment: July 2018

Responsibilities: The Company Secretary is responsible for advising on corporate governance matters, working closely with the Chairman, SID and Board of Directors. Nadia attends all PLC Board and Committee meetings and leads all of the legal and regulatory aspects of the AA's business and transactions. She also has oversight of the data and privacy compliance function.

Career and experience: As a qualified solicitor, Nadia has 17 years of legal and regulatory expertise, and spent the majority of her legal career in house within regulated consumer facing, technology, media and telecommunications environments at FTSE 250 companies. Nadia was previously Group Legal Director & Deputy Company Secretary at TalkTalk Telecom Group plc. She also held positions at The Carphone Warehouse Group plc prior to its merger with Dixons Retail plc.

Gareth Kirkwood

Managing Director, Roadside Services

Appointment: November 2017

Responsibilities: Gareth is responsible for leading the Roadside Services business in the Group, which covers all new business sales and retention for Personal Membership and Business Services customers, all customer contact centre operations for the Roadside business, and the AA's 3,000 patrols.

Career and experience: Gareth spent over 20 years at British Airways, including ten years in procurement, four years as Managing Director of one of BA's Regional Airlines, six years as Managing Director of BA's World Cargo division, and two years as Director of Operations. Since leaving British Airways in 2008, Gareth has worked as Chief Operating Officer of Daisy Group, the UK's largest reseller of unified communications, and as the Chief Operating Officer of Global Navigation Solutions, the world's largest distributor of charts and publications to commercial shipping. Most recently, Gareth led a successful transformation programme in Europe for HomeAway, a division of Expedia.

James Frost

Chief Innovation Officer

Appointment: October 2018

Responsibilities: James is responsible for Product Development and Innovation, Marketing and Brand Development, External Communication and Campaigning, Business Transformation and Digital Development for the AA.

Career and experience: James has considerable experience in marketing and product development across a variety of well known organisations. Prior to joining the AA, James was Chief Marketing & Commercial Officer for the UK division of Worldpay Inc, a global leader in payment technology. James has also worked in senior roles at the Nectar loyalty programme and, for much of his formative career, at Unilever plc. James was elected as a Fellow of the Marketing Society in 2015.

Edmund King

AA President

Appointment: January 2008

Responsibilities: Edmund is responsible for public affairs, public relations, campaigns and the AA Charitable Trust.

Career and experience: Edmund has a background in research, media, civil service, commerce and extensive transport campaigns. He has worked in the wine trade in Burgundy and for a radio station in Los Angeles. He has written several reports on transport and often appears as a transport commentator on radio and television. He is also a Visiting Professor of Transport at Newcastle University. He tweets under @AApresident.

Edmund was awarded an OBE for services to road safety in 2016 and was runner-up in the 2017 Wolfson Economics Prize with 'Road Miles'.

DETAILS OF THE EXECUTIVE DIRECTORS' SERVICE CONTRACTS ARE SET OUT ON P79 OF THE DIRECTORS' REMUNERATION REPORT

Roles and responsibilities

The Board is collectively responsible for the long-term success of the Group. There is a clear division of responsibility between the Chairman and the CEO. The Board exceeds the Code requirement for more than half of the members to be independent, and has six independent NEDs and two Executive Directors. This plays a vital role in ensuring effective challenge and independent thinking.

Chairman

John Leach

- > Responsible for the overall effectiveness in directing the Company
- > Provide leadership of the Board and ensure agendas emphasise strategic, performance and core value creation matters
- > Meet regularly with the independent NEDs to facilitate their development and effective contribution and to address any issues and concerns
- > Ensure that members of the Board receive accurate, timely and high-quality information and that Board decision making processes are effective
- > Lead the Board in the ongoing monitoring and annual evaluation of the performance of the CEO
- > Lead and participate in the Board evaluation process and ensure appropriate action plans are put in place and implemented
- > Take the lead in providing a properly constructed, full, formal and tailored induction programme for new Directors
- > Foster relationships founded on mutual respect and open communication between NEDs and management
- > Promote the highest standards of corporate governance, seeking compliance with the provisions of the Code, and review the implications of the New Code

CEO

Simon Breakwell

- > Provide entrepreneurial leadership of the Company, within a framework of prudent and effective controls which enable risks to be managed
- > Lead the development of the Group's strategic direction and objectives
- > Identify and execute new business opportunities, acquisitions and disposals
- > Review the Group's organisational structure and recommend changes as appropriate
- > Build and maintain effective leadership teams
- > Oversee the Group's risk profile, including the health and safety performance of the Group
- > Lead the Group's corporate responsibility programme
- > Meet with major shareholders on both strategic and governance matters as and when required
- > Ensure effective communications by the Group with its shareholders
- > Ensure the Group complies with its regulatory obligations and ensure good links between the Board and the independent boards of the regulated subsidiaries
- > Ensure the Board is alerted to forthcoming complex, contentious or sensitive issues affecting the Group

CFO

Martin Clarke

- > Recommend to the Board an annual budget and financial plan
- > Examine all trade, investments and major capital expenditure proposed by Group companies
- > Oversee risk management, treasury and internal controls
- > Ensure effective communication with shareholders and key stakeholders and update institutional investors on the business strategy and financial performance
- > Recommend to the Board appropriate changes to the capital structure and debt levels
- > Maintain relationships with the Group's banks and manage the investment and banking portfolio
- > Manage the Group's risk profile including the health and safety performance of the Group
- > Implement the decisions of the Board and its Committees
- > Build and maintain effective leadership teams
- > Ensure the Board is alerted to forthcoming complex, contentious or sensitive issues affecting the Group
- > Identify and execute new business opportunities

SID

Andrew Blowers

- > Act as a sounding board for the Chairman and a trusted intermediary for the other Directors
- > Be available to shareholders if they request contact both generally and when the normal channels of Chairman, CEO or CFO are inappropriate
- > Maintain contact with major shareholders to understand their issues and concerns, and attend meetings where necessary to listen to their views
- > Support the Chairman in ensuring the Board is aware of the views of major shareholders
- > Meet with the NEDs without the Chairman present at least annually and lead the ongoing monitoring, and annual evaluation of the Chairman

NEDs

Cathryn Riley, Suzi Williams, Steve Barber and Mark Brooker

- > Ensure Company preserves and generates value over the long term
- > Provide a vital role in delivery of high standards of governance and encouraging long-term investment
- > Constructively challenge and help develop proposals on strategy and empower the Executive Directors to implement the strategy
- > Bring independence, impartiality, experience, special knowledge and a variety of perspectives to the Board
- > Provide guidance on matters of concern and strategy development
- > Oversee risk management and internal controls
- > Protect shareholder and stakeholder interests
- > Scrutinise the performance of executive management in meeting agreed goals and objectives and monitor the reporting of performance
- > Uphold high standards of integrity and support the Chairman and Executive Directors to instill the appropriate culture, values and behaviours in the Boardroom and throughout the Group

Group General Counsel and Company Secretary

Nadia Hoosen

- > Develop, implement and sustain high standards of corporate governance
- > Support the Chairman, SID and other Board members as necessary
- > Advise the Board on legislation, regulation and corporate governance developments which impact the Group, and maintain the Group's Corporate Governance Manuals
- > Ensure good links between the Board and the independent boards of the regulated subsidiaries
- > Support communication with the shareholders and keep the Board informed of shareholder opinions
- > Coordinate the induction of new Directors
- > Ensure compliance with statutory and regulatory requirements
- > Review and monitor the Group's policies
- > Oversight for data and privacy compliance
- > Oversight of legal and regulatory matters and transactions

Our Board in 2019 and beyond

Composition of the Board

Our Board members have a wide range of skills and expertise. They have led substantive change projects in diverse corporate environments, including consumer services, insurance, private equity, telecoms, digital platforms, accountancy, strategic consulting and entrepreneurial start-ups.

We firmly believe that each Board member's experience, gained through previous roles, their time on the Board and any current external roles, strengthens the capability and composition of the Board and creates invaluable insight and diversity of thought. The Board considers that each member brings strong independent oversight and that each of our six NEDs is independent in character and judgement.

The role of the Board

The Board is responsible for the long-term sustainable success of the Company, protecting the AA brand, creating value for shareholders and monitoring culture. It carries out this role through a range of activities.

The Board sets the strategy of the Group and delegates execution of this strategy and day-to-day management to the Executive Committee. The Board continues to provide guidance and oversight to the business areas that assume responsibility for implementing strategic actions. The Board agrees the risk appetite and tolerances of the Group and ensures that the risk management structure is aligned and effective. The Board oversees the financial performance of the Group and ensures that a strong corporate governance framework is in place.

The AA's values are Courtesy, Collaboration, Care, Dynamism and Expertise. These values underpin all that we do at the AA and the Board ensures that appropriate workforce policies and practices are in place and embedded in day-to-day working life. The Board recognises its role to contribute to wider society and these values are embedded into our business model and Corporate Social Responsibility (CSR) framework which places People, Safety and Environment at its core.

Shareholder engagement

The Board recognises the importance of communication with key shareholders. Both the Chair and other members of the Board have a regular dialogue in order to seek further engagement and consider feedback. Next year, the Committee Chairs will seek engagement on any significant matters in accordance with the enhanced requirements under the New Code.

Matters reserved for the Board

Certain matters must be approved by the Board. These include, but are not limited to, approving the Group's strategy, monitoring trading performance, approval of major acquisitions, disposals, capital expenditure and financing matters.

The full Schedule of Matters Reserved for the Board and Terms of Reference for its principal committees can be found on the Company's corporate website at www.theaapl.com/investors/corporate-governance/board-and-committee-terms-of-reference.

The role of the Committees

The Board has established four principal Committees to which it delegates certain responsibilities. Our principal Board Committees play a key role in supporting the Board and comprise only independent NEDs so as to provide independent oversight. The Audit, Nomination and Remuneration Committees are as required by the Code. The Risk Committee was set up separately to review the Group's internal control and risk management systems and has full oversight of Group risk matters, particularly given the additional requirements of operating within a regulatory environment. The work of each Committee during the 2019 financial year is described in more detail in each of the Committee Reports on pages 64-84.

Information to the Board

The Board is kept up to date with developments in the business, including the work of the Executive Committee and Senior Management Team, through regular reports from the CEO and CFO, which are discussed at each Board meeting. The NEDs have a role to scrutinise and hold to account the performance of the Executive Committee and Executive Directors against agreed objectives. Sufficient time is given both before and at the end of each Board meeting for the Chairman to meet privately with the SID and NEDs to discuss any matters arising.

Strategic progress

As the new strategy was announced in February 2018, the annual strategy session held off-site on 12 and 13 September 2018 provided the opportunity for the Board to carry out an early review, as well as consider future plans to progress the development of the business. Deep-dive sessions covered product enhancement, P&L evolution and digital innovation and included presentations from third parties to enable a constructive discussion about the future of the AA in a digital environment. The NEDs were able to share their expertise and provide independent oversight and challenge.

Key business at meetings in the 2019 financial year

During the year, meetings were held at the AA's major office locations, including London, Oldbury, Cheadle, Newcastle and Cardiff. This provided the opportunity for the NEDs to visit the operational centres of the business and engage with key people at these sites to better understand the business.

In addition to the key operational and financial reports presented at each meeting, the following were considered by the Board during the year:

Strategy

- > Announcement of new strategy and implementation
- > Contractual and pricing input on Lloyds Banking Group renewal bid
- > Advising on the acquisition of Prestige Fleet Servicing and joint venture with AA Cars
- > Connected Car and future innovation

Governance and risk

- > Enhanced governance and oversight on cyber security strategy
- > Development of corporate structure to provide greater alignment of insurance businesses
- > Risk trends in Roadside

Health, safety and environment

- > Review and benchmarking of environmental objectives and targets to ensure alignment with our strategic goal to deliver a high performance culture
- > Regular review of safety performance and oversight of risk controls

Leadership and people

- > Appointment of NEDs to the AA plc, AAISL, AAIHL and AAUICL Boards
- > Key appointments and structural changes to the Executive Committee and Senior Management Team
- > Results and actions arising from Our Voice employee survey

Financial performance

- > Financial strategy and three-year plan
- > Deleveraging strategy and refinancing of near-term maturities
- > Roadside initiatives including operational fleet replacement and growth plan
- > Approved FY19 results, amended dividend policy and payments

Shareholder engagement

- > Major shareholder consultation on new strategic plans prior to announcement
- > Extensive consultation on incentivisation and performance criteria for awards

Looking ahead to the 2020 financial year, the Board will focus on the following matters:

- > Continued critical oversight of our strategy
- > Development of succession plans at all levels to ensure high-performance workforce in place for our future
- > Continued investment to build resilience of business and enable the AA to be a digital led membership organisation
- > Enhanced reporting of risk and controls

SEE OUR STRATEGY P17

Board evaluation, induction and training

Board changes during the year

During the year, we welcomed Cathryn Riley, Steve Barber and Mark Brooker to the Board. These appointments have further strengthened the capability and expertise of the Board. Andrew Miller stepped down from the Board at the AGM on 7 June 2018.

Induction: Cathryn Riley

Prior to her appointment, Cathryn Riley was Non-Executive Chair of the Group's insurance broker, AAISL, and had served for nearly three and a half years. Consequently, Cathryn was familiar with the history and strategy of the Company and had a deep understanding of the operational and regulatory requirements of the Insurance business. Cathryn's induction was therefore tailored to develop her knowledge of the Company's Roadside operations, through site visits and meetings with key senior managers.

Induction: Steve Barber and Mark Brooker

A tailored induction programme facilitated by the Chairman and the Company Secretary was agreed for Steve Barber and Mark Brooker, following their appointments as NEDs. This programme was tailored to each NED and designed to provide comprehensive information about the AA and its businesses, the Company's governance and regulatory framework, as well as its history. Steve and Mark each met with the Executive Committee on a one-to-one basis and with function heads to gain a greater understanding of the organisation, in particular the progress made on the IT transformation programme and the operation of the Insurance business. They also met with major shareholders and key stakeholders, including our external auditors. Both Steve and Mark also attended all of the AA's main operational sites across the UK.

Directors' information pack

On appointment, Board members receive an information pack which includes key contacts, Group structure, corporate calendar, D&O insurance and key policies. A number of governance matters are also outlined, including Directors' duties, conflicts of interest, Market Abuse Regulation and financial crime. The Company Secretary takes each new Board member through the induction pack to ensure that duties and responsibilities are fully understood and thereafter is available to advise each Board member on any queries or concerns. In addition, the Company Secretary produces an annual governance pack for the Board which outlines all the latest AA policies.

Training

Members of the Board are provided with training on relevant industry, legal and regulatory developments, facilitated by professional advisers where appropriate.

Board evaluation

The Board recognises the need to continually strengthen Board processes, including:

- > Reflecting on past performance and implementation of previous recommendations or actions
- > Consideration of future training, skills and diversity requirements
- > Identification and implementation of new recommendations or actions to improve performance
- > Ensuring the Board understands the needs of stakeholders, including considering any conflicts

In line with the requirements of the Code, an external Board evaluation was carried out in the 2018 financial year by Condign Consulting and the following matters were progressed during this year:

- > Undertook a strategy session focusing on people
- > Increased opportunities for NED visits to operational sites
- > Key appointments and structural changes made at Executive Committee and Senior Management Team levels to develop strength and support new strategic priorities
- > Developed a greater understanding of the drivers and regulatory needs of the Insurance businesses and made appropriate NED appointments
- > Reviewed and developed Board process and policies
- > Strengthened the Board's understanding of shareholder views and concerns
- > Developed a greater line of sight and communication between the Board and Executive Committee

During FY19, an internal Board evaluation was conducted. This was delivered through four questionnaires which focused on the following areas of the Board's role and performance:

- > Board functionality, dynamics and engagement
- > Board organisation, operating rhythm and materials
- > Board engagement with strategy development
- > Skills and experience of the Board
- > Performance of the Chairman and NEDs
- > Committee communication and effectiveness

The evaluation confirmed that the new NEDs have settled in well and enhanced the composition of the Board and its Committees and there have been improvements in information flow and collective problem solving.

Effectiveness of the Chairman

The effectiveness of John Leach as Chairman was considered as part of this year's Board evaluation. The feedback provided in the questionnaire was followed up with one-to-one meetings where responses were discussed with the SID and Company Secretary. The results of the review were unanimously positive and confirmed that John is well respected and promotes a culture of openness and debate.

The Board is confident that John upholds the highest standards, is a strong leader and fulfils his duties as Chairman.

The Board has reviewed the feedback from the 2019 evaluation and produced the following action plan:

- > Develop forward agendas to provide regular and sufficient time on deep-dive strategic issues
- > Increase focus on succession planning to create a robust people strategy for future Board, Executive and senior management appointments
- > Continue to develop Board procedures and quality of information flowing to the Board to enhance effective decision making
- > Provide guidance to management teams to improve quality of Management Information and reporting of risk controls
- > Enhance induction programme to build in more operational visits and provide NEDs with a comprehensive overview of debt structure and pension schemes
- > Increase the number of preparatory and teach-in sessions to aid Board development and understanding
- > Invite external guests to provide an alternative perspective to mitigate the risk of a future "Board bubble"

Progress on these actions will be considered as part of the next performance evaluation and reported on in next year's Annual Report.

Governance structure

Taking into account the principles of the New Code, the governance structure of the Group develops in line with our evolving strategy, growth plans and investment decisions. It serves to ensure that we meet our ongoing statutory and regulatory requirements and that our regulated businesses have robust and aligned governance standards. This approach is critical to ensuring that our business decisions, operations and activities are carefully scrutinised and controlled to safeguard the long-term health and reputation of the AA.

Our governance structure aims to enable appropriate, effective decision making with clear accountabilities and effective escalation layers. It sets out how the business is managed and operated at all levels.

The Executive Committee gives strategic focus and is responsible for execution of the operational and financial performance of the Group by coordinating the work of the specialist business areas. It is also responsible for ensuring it escalates matters to both the AA plc Board and regulated boards, as appropriate. This enables the efficient and effective day-to-day operation of the Group's businesses. The Senior Management Team is responsible for day-to-day delivery.

Primary regulated activities

A number of the Group's businesses carry out regulated activities which are overseen by our regulated subsidiaries. Most of the regulated business of the Group is carried on through Automobile Association Insurance Services Limited (AAISL) and AA Underwriting Insurance Company Limited (AAUICL).

AAISL is a UK insurance broking business, regulated by the Financial Conduct Authority (FCA) and AAUICL is a motor and household underwriter, writing UK business, registered in Gibraltar and regulated by the Financial Services Commission (FSC) in Gibraltar. The FCA and FSC expect these subsidiaries to operate separately so as to be independent in their decision making with regards to executing strategy and ensuring fair customer outcomes; therefore, we carefully govern each subsidiary to ensure compliance with our obligations.

In line with our growth plans for the Insurance business, the Group corporate structure was reviewed during the year and AA Insurance Holdings Limited (AAIHL), which is not regulated, was designed to provide strategic oversight of the two regulated subsidiaries and ensure deliverables are aligned with those of the Group. This enhanced governance structure resulted in the appointment of new NEDs to the boards of AAIHL and AAISL.

Other regulated activities

AA Financial Services (AAFS) is a subsidiary responsible for brokering a range of AA branded personal finance products. Consumer credit products, mortgages, savings, deposits and others such as life insurance are provided in partnership with product providers such as the Bank of Ireland. AAFS is authorised and regulated by the FCA.

Used Car Sites Limited, trading as AA Cars, operates a used-car listing website. The company's predominant income is generated through its core business: dealer subscriptions to the car listing site. However, a nominal income is generated from regulated consumer credit introductions to a credit broker that operates a panel of lenders. In this respect, Used Car Sites Limited is authorised by the FCA.

The Board works closely with these boards to ensure that appropriate governance is followed in respect of all regulated Group activities.

Internal committees

The Group operates a number of internal committees and forums that form part of the wider governance structure and enables the AA to ensure matters have a formal pathway and can be properly considered, reported and escalated to the relevant committees and forums, as appropriate.

The scope of matters that the internal committees address is wide ranging. An internal committee may relate to a single significant event or risk, such as the Group's Brexit committee. Other internal committees have a broader remit, such as those that consider operational, regulatory and legislative changes, or have oversight and approval of Group policies.

Investor relations

Our approach to investor relations

The AA has a comprehensive Investor Relations (IR) programme which aims to help existing and potential equity and debt investors understand what we do, our strategy and our achievements. The Board is committed to promoting effective channels of communication with our shareholders.

The AA share register is not typical of a UK company. Our share register is highly concentrated with the top five shareholders owning 43% of the issued share capital and the top ten shareholders, 59% of the issued share capital, as at 31 January 2019.

We engage with analysts, shareholders, bondholders and potential investors to ensure we have strong relationships which allow us to understand their views on material issues relating to the business. A critical part of this open dialogue is communication about our strategy and its delivery.

The Board receives independent feedback on our relationships with investors from our brokers. These are included in regular Board reports on IR. All analysts' notes are circulated to the Board to help it maintain an understanding of markets' perceptions of the Company and their financial expectations.

Relevant information available to investors

Financial reporting

The AA reports financial results twice a year, at the half year and year end. Following the announcement on the London Stock Exchange via the Regulatory News Service (RNS), presentations are held to explain the results. These presentations are simultaneously webcast and posted on the IR website to enable viewing by those unable to attend in person.

Ad hoc announcements

Ad hoc announcements of material information are made via the RNS and are also available on our IR website to ensure all investors are able to access them.

Annual Report

The Annual Report is published in line with requirements to provide sufficient time in advance of the AGM for feedback to be shared with the relevant Directors.

Website

An IR website, www.theaapl.com, is maintained to facilitate communications with investors. We publish all presentations given to investors, all RNS and press releases, as well as regulatory and CSR (Corporate Social Responsibility) documents, and we run a notification system to enable investors to sign up to receive all RNS announcements automatically, direct from RNS.

Meetings with investors enabled through our IR programme

Over the past two years, we have seen a significant increase in the number of non-traditional investors (including hedge funds, short sellers and activists), enter the register through contracts for differences (such as equity swaps) targeting stocks that have been underperforming versus market expectations and those with a large proportion of debt in the capital structure.

Institutional shareholders

During the year, the IR team and senior management conducted 175 meetings and met or spoke to over 120 shareholders or potential investors.

Initial meetings are held with IR but when investors take significant holdings, we aim to ensure that investors meet at least one of the Chairman, CEO or CFO.

Individual shareholders

Individual shareholders are encouraged to communicate with the Board through the Company Secretary.

Bondholders

Meetings with credit institutional investors and analysts were held with our Executive Committee and IR department throughout the year. In addition, regular dialogue was maintained with our key relationship Banks and Bond Trustee.

Credit ratings

During the year, updates and meetings were held with credit rating agency Standard & Poor's in respect of our bonds by relevant members of our senior management team. The Company continues to maintain a BBB- rating.

Governance

As part of our annual governance programme, we offer our shareholders the opportunity to meet with the Chairman or the SID to discuss any issues and concerns in relation to the Group's governance and strategy. We also have a programme of engagement on governance matters which is managed by the Company Secretary and includes discussions with institutional governance teams and proxy agents. The Remuneration Chair also separately consults with over half of our shareholder base on executive remuneration matters.

Non-Executive Director shareholder meetings

The Chairman has attended shareholder meetings throughout this financial year with holders representing more than 55% of issued capital and will continue to seek engagement on a regular basis. In addition, all of our NEDs have attended meetings with shareholders. This has ensured that the Board as a whole has a clear understanding of shareholder feedback.

NEDs are available to attend meetings with major shareholders on request.

Annual General Meeting (AGM)

Investors' views in relation to governance and in particular Executive remuneration are sought ahead of the AGM.

The 2018 AGM provided shareholders with an opportunity to question the Board and the Chairs of the Board Committees on matters put to the meeting.

At the 2018 AGM, more than 20% of votes were cast against resolutions 3, 15 and 17; being the Remuneration Policy (23.77%), Authority to Allot Further Shares (28.13%) and Further Disapplication of Pre-emption rights (37.03%) respectively. This resulted in the AA being included on the Investment Association's (IA) Public Register.

In our AGM results announcement, we acknowledged the level of votes cast against these resolutions and committed to working more closely with shareholders to understand the reasons behind the dissent, which we have done, while taking into account that it is often only one or two shareholders that may have voted against a resolution because the AA's share register is not typical of a UK FTSE plc and is highly concentrated, as explained above.

In line with our obligation to follow up within six months, we wrote to the IA to provide an update on views heard from shareholders and to set out our implemented and intended actions to address the issues going forward. This statement was not reflected on the IA Public Register and is in the process of being corrected.

The IR calendar is designed to ensure that investors and potential investors get effective access at the appropriate level, while effectively managing Executive Committee time.

In addition to major annual events, we hold multiple one-on-one meetings with IR and members of the Executive Committee. We include group meetings soon after results to ensure that smaller holders and non-holders have the opportunity to meet management. We also attend conferences, as relevant, to provide further opportunities for new investors to establish contact.

Depending on Executive Committee availability, we look to offer site visits to our Oldbury operations to allow investors to see the operations and get a feel for the business at a practical level. We encourage investors to attend as they gain a valuable insight into our deployment system, spend time with the patrols, observe our call centre operations and meet a range of operational management.

We also conduct presentations with sales teams from those banks which publish research on the AA.

Listening to our investors

The common themes raised by our equity and debt investors throughout the year included:

- > Competitive market dynamics
- > Regulatory reviews on pricing transparency
- > New product innovation pipeline
- > Building operational resilience
- > Long-term growth targets
- > Optimal capital structure
- > Alignment of Executive Remuneration to the long-term growth and strategy plan

Effectiveness

Nomination Committee Report

A key focus of the Committee during the 2019 financial year has been to strengthen the composition of the Board and Committees with the appointment of two additional Non-Executive Directors.

Andrew Blowers

Chair of the Nomination Committee

Nomination membership and attendance

Current Committee members	Date appointed
Andrew Blowers (Chair) ¹	13 Nov 2014
John Leach ¹	26 Jun 2014
Suzi Williams	1 Oct 2015

Committee meeting attendance	Attended/max. possible
Andrew Blowers (Chair)	4/4
John Leach	4/4
Suzi Williams	4/4

¹ Andrew Blowers succeeded John Leach as Chair of the Committee on 27 June 2018.

All members are independent Non-Executive Directors (NEDs) and the Chair was considered independent on appointment to that role.

Other attendees

The CEO, Human Resources Director and Chair of the Risk Committee were invited to attend meetings during the year.

As with all Board Committees, the Company Secretary acts as secretary and provides support and sufficient resources. Where necessary, the Committee has direct access to independent professional advisers to assist the Committee in fulfilling its duties.

Introduction

I am pleased to present the report of the Nomination Committee (the Committee) for the financial year ended 31 January 2019, my first year as Committee Chair since being appointed to the position on 27 June 2018. We thank John Leach for his service leading this Committee up to my appointment.

During the year, the Committee supported the Board in reviewing its structure and composition, considered diversity at all levels of the organisation, evaluated the performance of the Board and its principal committees, made recommendations as appropriate, and oversaw succession planning for both the Board and the Executive Committee, while taking into account the New Code.

A key focus of the Committee during the 2019 financial year has been to strengthen the composition of the Board and Committees with the appointment of three additional independent NEDs, Cathryn Riley, Steve Barber and Mark Brooker, which means the ratio of independent non-executive to executive is now 6:2. As part of this exercise, the Committee considered what key changes needed to be made to the Board and the Executive Committee under the new Group strategy. The Board also undertook an internal Board evaluation review and agreed a number of key areas to address during the year. The results of this review are detailed on page 60, along with the action plan that will be implemented in the coming year. The next external evaluation will be conducted in 2021.

This year's Board evaluation review and the continued development of the skills matrix assisted with the process of assessing the composition and skills of the Board and aided succession planning and developing the scope of new appointments.

Committee roles and responsibilities

The Committee has overall responsibility for evaluating the size, composition and performance of the Board and its principal Committees. It makes recommendations to the Board on the appointments of additional and replacement directors. The Committee oversees succession planning for the Board, Executive Committee and Senior Management team, taking into account the skills, expertise and diversity that will be needed to lead the Company in the future.

Full Terms of Reference of the Committee can be found at www.theaapl.com/investors/corporate-governance/board-and-committee-terms-of-reference.

This report sets out other principal activities of the Committee during the year and a summary of our plan for the 2020 financial year.

Committee activity during the 2019 financial year

The Committee undertook the following significant activities during the 2019 financial year:

- > Enhanced and undertook a formal and rigorous internal annual evaluation of the Board, its Committees, the Chair and individual Directors
- > Assessed the balance of skills, experience, independence, diversity and knowledge across the Board
- > Reviewed and updated the skills matrix of Board members in line with the Company's strategy to aid future succession planning and talent management, as well as ensure that an appropriate balance of skills and expertise exists
- > Appraised the performance of the Chairman, a process conducted by the SID, NEDs and Company Secretary
- > Reviewed the skills and independence of each of the independent NEDs and subsequently recommended that each of them be elected or re-elected at the Company's AGM to be held on 5 June 2019
- > Reviewed the time commitments of the NEDs
- > Considered and recommended candidates for the appointment of the additional NEDs
- > Oversaw the appointment and inductions of Cathryn Riley, Steve Barber and Mark Brooker as AA plc NEDs
- > Reviewed the induction process for Directors
- > Planned NED site visits across the UK
- > Considered diversity at Board level and through to the Senior Management Team
- > Reviewed ongoing succession planning for the Board
- > Assessed the future talent pipeline within the Company and succession planning
- > Operated a mentoring programme with the Senior Management Team
- > Reviewed feedback from the Group's insurance broker, Automobile Association Insurance Services Limited (AAISL) on its Board evaluation
- > Approved the appointment of a new AAISL NED and the promotion of Dave Smith to Chair
- > Approved the appointment of a new NED and replacement Chair to the Group's underwriter, AA Underwriting Insurance Company Limited (AAUICL)
- > Considered and made recommendations on membership of the Board's four principal Committees
- > Reviewed the Terms of Reference of the Committee
- > Developed a go-forward agenda for the Committee

Succession planning

To successfully implement our long-term strategy, we require a strong and diverse Board with a suitable mixture of skills and experience, independence of thought and judgement, and an appropriate degree of challenge.

The Committee used the outcome of the Board evaluation and the enhanced skills matrix to assess the Board's current balance of skills, knowledge and diversity and how these align with our strategic priorities. The Committee used this analysis to identify areas which could be strengthened by any future Director appointments and concluded that the mix of skills and knowledge were appropriate for this period.

During the year, the Committee also reviewed the succession plans for the Board, Executive Committee, main Insurance boards and the Senior Leadership Team, including other business-critical roles. The Committee remains mindful of the need to continue to develop the pipeline of possible future Board appointments, and to ensure that talented individuals receive the appropriate training, development and mentoring opportunities to enable them to progress to more senior roles.

Non-Executive Director appointments during the year

As reported in the 2018 report and accounts, Cathryn Riley joined the Board on 28 February 2019. In addition to which Cathryn has been appointed as Chair of the Risk Committee. As a former Non-Executive Chair of the Group's insurance broker AAISL who served on that Board for three-and-a-half years, and the former Group Chief Operating Officer at Aviva plc, Cathryn joined the Board with extensive knowledge of the Company and significant insurance and audit expertise.

Andrew Miller advised that he would retire from the Board at the 2018 AGM, as a result of which the Board initiated a recruitment process to find a new NED and Chair of the Audit Committee. By mapping the Board skills matrix against our future strategic needs, it was recognised that a further appointment of a NED from a strong and recent financial background, as well as someone with deep digital leadership experience, would enhance and complement the existing skills and experience of the Board.

Korn Ferry, an independent leadership and talent consulting firm, were engaged to conduct both of the NED searches. The selection criteria used were objective yet broad. They focused on enhancing the Board composition in line with our new strategy and took into account the importance of satisfying the Code requirement for an Audit Chair to be independent on appointment and to have recent and relevant financial experience.

During the recruitment process, the Committee considered several potential NEDs from a range of diverse backgrounds. The Committee requested that all aspects of diversity, including ethnic diversity be considered, to ensure a broad candidate pool from which to select the most appropriate candidate based on merit and objective criteria.

This resulted in the Committee recommending, and the Board approving, the appointments of Steve Barber and Mark Brooker. Steve brings a wealth of audit and board experience and almost 30 years' experience in accountancy, including as a senior partner at PricewaterhouseCoopers, meaning that he satisfies the Code requirements for an Audit Chair as outlined above. Mark Brooker has significant experience of digital business and innovation, having previously been Chief Operating Officer of Trainline (formerly thetrainline.com), the European tech company and leading independent rail retailer. Jointly, this additional expertise significantly enhances the Board's capability.

Diversity

The Board recognises the importance of diversity at Board level and throughout the Company. Diversity charts showing male and female representation at Board, Executive Committee, Leadership team and All Employee level can be found on page 44 of this report.

As at 31 January 2019, female representation was 25% on the Board and 33% on the Executive Committee. In 2018, the Company was placed 112th in the FTSE 350 Hampton-Alexander list and 8 out of 27 in the support service sector list.

In addition to Cathryn Riley's appointment to the Board, which supported our continuing desire to fulfil our diversity and inclusion plan, the Committee also has overseen the appointment of a female Company Secretary from an ethnic minority background. Both roles demonstrate the Board's commitment to ensuring appropriate ethnic and gender diversity on the Board. Both appointments were made entirely on merit and both appointees bring extensive experience in their respective fields. This means there are now two women holding Committee Chair roles. These appointments have further enriched the composition of the Board and have enabled the Company to be more aligned to the diversity of our customer base across the UK. Together, the four new appointments have reinforced a collective Board with a diverse range of experience, skills and expertise so as to be well equipped to guide the business and strategy of the Company.

We are pleased to have 33% female representation on our Executive Committee and are developing a plan in respect of Lord Davies' extended target for Women on Boards of 33% female membership by 2020. The AA additionally supports the recommendations of Sir John Parker's review to increase ethnic diversity at Board level and we have already considered this in our appointments and succession planning.

To achieve these targets, the Committee is working closely with the Group General Counsel & Company Secretary and Chief People Officer to develop clear recruitment and succession plans that increase diversity, while being mindful that it remains critical that all appointments attract the best quality candidates and continue to be made on merit regardless of background.

Further information on gender and diversity can be found in the Our People section on page 44.

Plan for FY20

The Committee's plan for the 2020 financial year includes:

- > Implement actions from the 2019 Board Evaluation (see page 60)
- > Continue to develop a diverse pipeline of talent and progress our diversity and inclusion action plan seeking to meet Lord Davies' target and the recommendation in Sir John Parker's 2017 report
- > Continue to undertake our work in relation to succession planning for the Board and key roles across the business
- > Continue to operate the successful mentoring programme with the Senior Management Team
- > Review the Board's contribution to strategy, time commitments and the effectiveness of each NED's contribution
- > Develop a broader induction programme for the Board
- > Consider the skills, availability and performance of each Board member and reflect those results in recommendations on the election and re-election of Directors at the Annual General Meeting.

I look forward to meeting you at the AGM.

Andrew Blowers
Chair of the Nomination Committee

Accountability

Risk Committee Report

Effective risk management is a core part of AA governance and culture.

Cathryn Riley

Chair of the Risk Committee

Risk membership and attendance

Current Committee members	Date appointed
Cathryn Riley (Chair) ¹	28 Feb 2018
Suzi Williams	01 Oct 2015
Steve Barber	27 Jun 2018
Mark Brooker	10 Jul 2018

Former Committee members	Date resigned
John Leach	27 Jun 2018
Andrew Blowers ¹	27 Jun 2018
Andrew Miller ²	7 Jun 2018

Committee meeting attendance	Attended/max. possible
Cathryn Riley (Chair)	3/4 ¹
Suzi Williams	3/4 ³
Steve Barber	2/2
Mark Brooker	1/2 ⁴

Former Committee members	
John Leach	2/2
Andrew Blowers	2/2
Andrew Miller	1/1

1 Cathryn Riley succeeded Andrew Blowers as Chair of the Committee on 27 June 2018. Cathryn was unable to attend one meeting due to a business commitment that was planned before she joined the Board.

2 Andrew Miller stepped down from the Committee and Board on 7 June 2018.

3 Suzi Williams was unable to attend one meeting due to a pre-arranged business meeting. She received the papers ahead of the meeting and submitted her comments.

4 Mark Brooker was appointed to the Committee on joining the Board on 10 July 2018. Mark was unable to attend one meeting due to a business commitment that was planned before he joined the Board.

All members are independent Non-Executive Directors (NEDs) and the Chair was considered independent on appointment to that role.

Other attendees

Members of the Executive Committee and senior management team are invited to join meetings as appropriate. During the year, this included the CEO, CFO, Chief Risk Officer, Chief Information Officer, Head of Internal Audit and Chair of the AAISL ARCC Committee.

As with all Board Committees, the Company Secretary acts as secretary and provides support and sufficient resources. Where necessary, the Committee has direct access to independent professional advisers to assist the Committee in fulfilling its duties.

Introduction

I am pleased to present the report of the Risk Committee (the Committee) for the financial year ended 31 January 2019.

Effective risk management is a core part of AA governance and culture. Over the last year, the Committee has reviewed and supported the strengthening of the Risk Management function and Framework to ensure that risk management supports the AA's strategy and transformation initiatives. The Committee plays a key oversight role for the Board and this report is presented to demonstrate our approach to risk control and accountability. It sets out the activities and initiatives that we have undertaken during the 2019 financial year and our plans for the forthcoming year.

Supporting the Committee is an internal management Executive Risk and Compliance Committee (ERCC) which meets frequently throughout the year. This is an executive body, made up of senior executives and functional experts. Its role is to implement the Risk Management Framework, highlight exceptions to our risk appetite, understand the root cause of control failures and oversee corrective actions. There is also an Audit, Risk and Compliance Committee (ARCC) for the regulated Insurance broking subsidiary, Automobile Association Insurance Services Limited (AAISL), and a Risk & Compliance Committee (RCC) for the in-house underwriter, AA Underwriting Insurance Company Limited (AAUICL). Both of these also report to the Committee in respect of their work.

The Committee works closely with the ERCC, ARCC and RCC, and the Chief Risk Officer and invites executive members of the Group to attend or present, as appropriate.

Committee roles and responsibilities

The Committee has overall responsibility for overseeing the management of risks, the provision of sufficient risk management resources, and compliance with our Risk Management Framework. These responsibilities are delegated to the Executive Directors of the Board for the day-to-day management of risks and the process is monitored by the Committee (working alongside the Audit Committee), each member of which reports to the Board.

Full Terms of Reference of the Committee can be found at www.theaapl.com/investors/corporate-governance/board-and-committee-terms-of-reference.

Risk Management Framework

In order to ensure effective risk management in the AA, our Framework requires:

- > An effective risk culture in place, with risk management embedded in the business
- > The timely identification, reporting and management of risks
- > The regular review and updating of risk registers, including the assessment of risks and their respective controls
- > Timely and accurate reporting of incidents and near misses
- > The operation of management 'snap checks' (control effectiveness tests) to confirm the adequate operation of key controls
- > The implementation and tracking to resolution of management actions for risks outside of tolerance or appetite, ineffective controls, incidents and issues
- > The reporting of key risk indicators (KRIs)
- > Engagement from all employees to effectively manage risk and operate the organisation's control framework

The operation of the above is monitored by the Committee.

Group risk appetite

It is the responsibility of the Board to set and agree the Group risk appetite and this is regularly reviewed by the Committee. The appetite takes into account the level of risk and risk combinations that the Board is prepared to take to achieve the Company's strategic objectives, together with the level of risk shock that the Group is able to withstand.

Principal risks and uncertainties

The Board has identified, and monitors on an ongoing basis, the principal risks to the AA, including those risks that would threaten its strategy, future performance, solvency or liquidity. Set out on pages 33 to 35 are the risks the Board considers to be of most significance to the Group in terms of preventing or restricting execution of its strategy, together with the mitigating activities that we have put in place to try to prevent such risks materialising. We recognise that other risks are still present and seek to ensure that they are managed accordingly.

It is recognised that the Group is exposed to a number of risks, wider than those listed. However, we have disclosed those of most materiality to the business at this moment in time, including those that have been the subject of debate at recent Board and Committee meetings.

Brexit

The impact of Brexit on the Group's mainly UK based businesses should not be significant.

Committee activity during the 2019 financial year

The Committee receives regular reports on risk management which include:

- > The status of the principal risks and the top risks identified by executive management, including horizon and emerging risks
- > Material incidents and near misses
- > Control effectiveness details
- > Progress in completing actions to rectify control deficiencies
- > The Group Risk Appetite Dashboard
- > KRI exceptions
- > Minutes of the ERCC
- > Updates from the chairs of the ARCC and RCC

During the year, in addition to the standard reports from the Chief Risk Officer, the Committee has received presentations from various areas of the business to enable it to review and consider specific risks. Subjects covered have included:

- > Information/cyber security
- > Road operations service levels
- > Preparations for and the implementation of the new GDPR requirements
- > Complaint handling
- > IT and business transformation
- > Renewal transparency
- > Regulatory requirements, including pricing practices
- > Cyber insurance

Actions undertaken during the 2019 financial year

Initiatives to improve our Risk and Control Framework were noted in our Annual Report for the 2018 financial year and below are some of the actions undertaken since:

1. Improved culture of risk management through increased engagement with risk owners around the business
2. Executive Risk & Compliance Committee engagement on top risks, incident and action management
3. Introduction of Risk Acceptance governance framework
4. Refreshed risk registers
5. Increased visibility, management and monitoring of project risks
6. Strengthening of the risk management function through recruitment of additional experienced personnel
7. Cyber security, including commissioning an independent report to identify any areas requiring attention and addressing these

Plan for FY20

The Committee's plan for the 2020 financial year includes:

1. Continue to reduce the number and severity of risk incidents through oversight of the timely closure of risk incidents and actions arising to address root cause
2. Ensure Risk Appetite is clearly defined and owned at an executive level as part of the fulfilment of the FY2020 Risk Plan and ensure emerging risks are properly escalated
3. Assess functionality of current risk system to support analysis, closure and reporting of incidents raised from all areas of the business, streamline processes and reduce duplication
4. Review Group policy compliance with initial self-assessment by policy owners and risk-based evidence checking
5. Increase the profile, awareness and embedding of risk management through targeted communications and intranet refresh
6. Strengthen the role of risk in project decision making
7. Integrate cyber and data risk into the combined first, second and third line assurance map
8. Monitor and review the effectiveness of the Company's Risk function.

Cathryn Riley
Chair of the Risk Committee

Effectiveness

Audit Committee Report

The work of the Committee has primarily focused on the Group's significant financial reporting judgements, reviewing the financial results prior to their submission to the Board and internal financial controls.

Steve Barber

Chair of the Audit Committee

Audit membership and attendance

Current Committee members	Date appointed
Steve Barber (Chair) ¹	11 Jun 2018
Cathryn Riley	27 Jun 2018
Mark Brooker	10 Jul 2018

Former Committee members	Date resigned
John Leach	27 Jun 2018
Andrew Blowers ¹	27 Jun 2018

Committee meeting attendance	Attended/max. possible
Steve Barber	2/2
Cathryn Riley	2/2
Mark Brooker	1/2 ²

Former Committee members	
John Leach	2/2
Andrew Blowers	2/2

1 Steve Barber succeeded Andrew Blowers as Chair of the Committee on 11 June 2018.

2 Mark Brooker was appointed to the Committee on his appointment to the Board on 10 July 2018. Mark was unable to attend one meeting due to a business commitment that was planned before he joined the Board.

All members are independent Non-Executive Directors (NEDs) and the Chair was considered independent on appointment to that role.

Other attendees

The CEO, CFO and the external auditors (PwC and previously EY) are invited to attend meetings as appropriate. The Head of Internal Audit attends regularly, except where the performance of Internal Audit is discussed.

The Chair of the Audit, Risk and Compliance Committee (ARCC) of our regulated Insurance broker, AAISL, regularly attends to ensure consistency and facilitate good communication across the Group.

As with all Board Committees, the Company Secretary acts as secretary and provides support and sufficient resources. Where necessary, the Committee has direct access to independent professional advisers to assist the Committee in fulfilling its duties.

I am pleased to present the report of the Audit Committee (the Committee) for the financial year ended 31 January 2019.

I joined the board and became Committee Chairman in June 2018. Since then, I have met many members of management and have visited the Group's key locations. I have been impressed by the professionalism and commitment of everyone that I have met. Even in this short period, I have seen positive changes in people, culture and approach. The Committee has played a key role in the various initiatives that management have put in place and takes a keen interest in their progress.

As discussed later, the legacy of the Group's private equity ownership remains, for example, with the Group's high level of debt, negative net assets and the metric of Trading EBITDA, as required by our debt instruments, rather than Operating Profit – but going forward the focus will progressively move towards Operating Profit and earnings per share.

The work of the Committee has primarily focused on the Group's significant financial reporting judgements, reviewing the financial results prior to their submission to the Board and internal financial controls.

Committee roles and responsibilities

During the course of the year, the composition of the Committee has changed and now comprises three members, myself, Mark Brooker and Cathryn Riley, all of whom are independent NEDs. Mark has particular experience of the digital world and Cathryn is our insurance expert. As for me, I have served as a listed company audit committee chairman for over a decade and therefore have recent and relevant financial experience. Prior to our appointment, the Committee was chaired by Andrew Miller who retired as a Director. The Committee would like to thank Andrew Miller for his service leading the Committee up to my appointment. The other members of the Committee were John Leach, who became Chairman of the Group, and Andrew Blowers, who is now our Senior Independent Director. I believe that our new Committee has the right blend of skills and experience.

The CEO and the CFO are invited to attend meetings of the Committee where appropriate and the Company Secretary attends as Committee Secretary. The Head of Internal Audit also attends regularly, except where the performance of Internal Audit is discussed. Jonathan Roe, as Chair of the Audit, Risk and Compliance Committee (ARCC) of our regulated Insurance broker also regularly attends to ensure consistency and to facilitate good communication across the Group. Other senior executives may attend as required. The Committee considers that the attendance of these people helps to provide an insight into the business's challenges and aspirations as well as providing an opportunity to challenge and discuss them.

Our newly appointed external auditors, PwC, also attend each meeting, except where discussion includes matters relating to their independence, performance, reappointment, fees or audit tendering. Regular meetings are held with the external auditors without management being present.

All three members of this Committee sit on the Risk Committee and I, as Committee Chair, also sit on the Remuneration Committee, to facilitate efficient cross-communication and to ensure that risk and audit issues are addressed effectively.

The Committee meets regularly to fulfil the following core responsibilities:

- > Reviewing and recommending the financial statements, any formal announcements relating to the Group's financial performance and disclosures to the Board, including reviewing significant reporting judgements
- > Monitoring the integrity and effectiveness of our internal financial controls
- > Maintaining oversight of financial requirements
- > Reviewing and approving the internal audit plan for the following financial year, ensuring it is aligned with our key strategic priorities
- > Reviewing and managing the relationship with the external auditors, including their objectivity and independence.

The Committee ensures that regular updates are provided to the Board on how the Committee has discharged its responsibilities.

The full Terms of Reference of the Committee can be found at www.theaapl.com/investors/corporate-governance.aspx

Committee activity during the 2019 financial year

The Committee undertook the following principal activities during the year:

- > Reviewed and made recommendations in relation to the statutory, preliminary final and interim financial results and disclosures
- > Reviewed future cash flows and prospects for the Group in connection with the Going Concern and Viability Statements
- > Undertook a review of the Annual Report and Accounts to ensure that the narrative messages are consistent and accurately reflect the financial statements and that the information included in the Annual Report is fair, balanced and understandable
- > Approved key financial policies and practices
- > Reviewed the Internal Audit plan
- > Assessed the effectiveness and resourcing of the Internal Audit function and continued to keep under review the adequacy of internal financial controls
- > Reviewed and monitored the effectiveness and independence of the external auditors
- > Received reports from the Automobile Association Insurance Services Limited (AAISL) Culture and Conduct Committee and the AAISL ARCC Chair

Significant judgements

The Committee has assessed whether suitable accounting policies have been adopted and whether management has made appropriate judgements and estimates.

Throughout the year, the finance team has worked closely with PwC to ensure that the Group provides the required level of disclosure regarding the significant judgements considered by the Committee in relation to the financial statements, as well as how these were addressed.

The main areas that have been considered by the Committee are set out below.

Going concern and viability

The Group's net debt amounts to some £2.7bn with the first scheduled repayment being £200m in 2020, followed by some £1.3bn in 2022. In addition, the Group has net liabilities of some £1.7bn. The 2020 repayment is covered by the forward starting Senior Term Facility outlined in note 20 but the 2022 repayments will need to be made from either the Group's cash flow, new bank debt, new bonds or an extension of existing maturities or new funding.

The Committee reviewed the latest three year projections as adopted by the Board. The principal considerations and sensitivities relating to each of the viability and going concern statements are set out on page 32.

For the viability statement, the key assumption is the Group's ability to refinance its debts falling due in 2022 (see page 32).

Carrying amount of goodwill

Balance sheet goodwill and other intangibles amount to over £1.3bn as shown in note 11.

As explained in note 26, management have prepared discounted cash flow projections based on the latest Board-approved strategic plan and these have been compared to the carrying value of goodwill.

The Committee has considered the basis of preparation of the discounted cash flows and is satisfied that these reflect the latest strategic plan of the Group and that the discount rate of 9.9% is appropriate.

Based on these projections and considerations, there is significant headroom to support the carrying value of the principal components of goodwill.

Classification and amount of items deemed to be non-underlying or exceptional

As explained in note 3, the group uses an alternative measure of Trading EBITDA for reporting underlying performance. This measure adjusts, inter alia, for the impact of share-based payments, pension variations and other exceptional items.

Exceptional items in the 2019 financial year added back amounted to £40m, of which £22m related to the Guaranteed Minimum Pension (GMP) equalisation noted below, £5m to impairments of intangible assets and £13m primarily in respect of the transformation programme. It is anticipated that these will reduce significantly as the transformation programme nears completion.

The Committee received and reviewed presentations from management on the treatment of these non-underlying items, discussed them at length with local and Group management as well as with PwC and agreed the appropriateness of their classification as non-underlying with appropriate disclosure of each item in order to present a comparable and continuing basis of measurement of underlying earnings.

Carrying amount of IT systems

The Group has invested considerable amounts in new IT systems that have yet to fully come into operation. In particular, some £90m has been invested in our new membership platform, CATHIE, of which £5m was subsequently impaired in the current financial year.

As explained on page 19, it is anticipated that the CATHIE platform will go live progressively during the years to January 2021. The profit and loss account for the year ending 2022 will therefore be the first year in which a full depreciation charge will impact the Group's earnings.

It is a complex process to migrate policies and the Committee will carefully monitor progress towards this.

Pensions accounting

The Group's defined benefit pension schemes and private medical plan represent a significant net liability on the Group's balance sheet at £218m. As explained in note 25, the gross value of the assets in the funds are some £2.3bn with gross liabilities of some £2.5bn. Accordingly, minor variations in these gross amounts may have a disproportionate impact on the Group's balance sheet.

The accounting deficit has reduced by £22m during the year as a result of the factors explained in note 25. This includes the one-off increase of £22m in respect of Guaranteed Minimum Pension equalisation which has been recognised as a charge against this year's profits; this compares to a past service credit of £34m taken to the profit and loss account in the prior year. Also, there has been a £47m charge in respect of the purchase of the bulk annuity policy. Offsetting these items there have been a number of changes in financial assumptions.

The value of the scheme fluctuates as a result of changes in the underlying assumptions. The principal assumptions which drive these fluctuations are forecast corporate bond yield rates and the forecast inflation rate. As noted, the deficit of £218m is on an accounting basis. On a solvency basis, the deficit could be very substantially larger.

The Committee has reviewed the disclosures relating to the defined benefit pension scheme and is satisfied that they are appropriate.

Revenue recognition

A large proportion of the Group's revenues are derived from payments in advance which are then spread over the period of the contract. Accordingly, the calculation of such deferrals are reviewed in detail and the Committee is satisfied that the position is fairly stated.

Insurance underwriting provisions

Although the Group's underwriting business is quite new and small relative to the Group, the Committee sought assurances as to the level of claims provisioning. The Committee has been provided with reports to provide comfort as to the adequacy of the claims provisioning.

Claim by the former Chairman

As explained in last year's Annual Report and in note 21, the former Chairman lodged a claim for substantial damages against the Group.

Based on legal advice received, no provision has been made in respect of this claim as the Group continues to expect to rigorously and successfully defend the claim in full.

Impact of new accounting standards

The Group has implemented two new accounting standards that came into force during the year– IFRS 9 and IFRS 15.

As set out in note 35, no prior year adjustment was required in respect of IFRS 15.

Note 35 also explains the impact of IFRS 9 which resulted in a credit to opening reserves of £13m before tax.

IFRS 16, Leasing, will become effective from 1 February 2019 and the anticipated impact of adopting this new standard is set out in note 35.

External auditors

The Committee manages the relationship with the Group's external auditors on behalf of the Board.

As advised in the 2018 Annual Report, the Committee undertook an audit tender process which resulted in the proposal to appoint PricewaterhouseCoopers LLP (PwC) as the Group's external auditor which was approved at the 2018 AGM. Therefore, 2018 was the first year of appointment of PwC, with the audit led by Stuart Newman.

The Committee considers annually the scope, fee, performance and independence of the external auditors. The Committee believes the independence and objectivity of the external auditors and the effectiveness of the audit process are safeguarded and remain strong. We have received confirmation from PwC that they remained independent and objective within the context of applicable professional standards.

The Committee reviewed and discussed regular reports from the external auditors, including at the planning stage, in advance of the year end and at the completion of the audit. The Committee considered the performance of the auditors separately taking account of the discussions with the external auditors and their reports after having also received feedback from management.

Audit and non-audit fees

	2019 £000 (PwC fees)	2018 £000 (EY fees)
Non-audit fees		
Refinancing	–	86
Other advisory work	214	–
Total non-audit fees in financial year	214	86
Audit and audit related fees	970	1,122
Ratio of non-audit fees to audit fees	22%	8%

Our policy on external auditor independence, which complies with EU and FRC requirements, is that all proposed non-audit services are subject to approval in advance by the audit committee. The policy prohibits the engagement of the external auditors for certain types of work.

The Committee recognises that, in some instances, it is more timely and cost-effective for our external audit firm, which is already familiar with the Group and its finances, to advise on certain non-audit matters. This is limited to work where the risk of the auditors' independence being impaired is low and where appropriate safeguards can be put in place.

Internal financial controls

The Committee works closely with the Risk Committee and has completed its review of the Group's systems of internal financial controls and their effectiveness for the 2019 financial year and has done so in accordance with the requirements of the Code. It should be noted that the Group's risk management systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and they can only provide reasonable and not absolute assurance against material misstatement or loss.

In the Committee's opinion, there were no significant failings noted from this review and overall there has been an improvement in the overall control environment. However, a number of recommendations have been made, particularly in respect of the IT controls environment and these are being addressed.

Committee effectiveness

As part of the internal Board evaluation carried out during the year, the Committee was considered to be working effectively. More details of the review can be found on page 60.

Fair, balanced and understandable

At the request of the Board, the Committee considered whether, in its opinion, the Annual Report and Accounts for the 2019 financial year is fair, balanced and understandable and whether it provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

As part of this process, the Committee discussed what information and insight it would need in order to satisfy shareholders that the financial information is fair, balanced and understandable.

Following its review, the Committee is of the opinion that this Annual Report and Accounts for the financial year to 31 January 2019 is consistent with its understanding of the business and results, and presents a fair, balanced and understandable overview, providing the necessary information for shareholders to assess the Group's performance, business model and strategy.

Plan for FY20

Looking ahead, the Committee will remain focused on the audit and assurance processes within the business, and maintain its oversight of financial and other regulatory requirements. The action plan for the 2020 financial year will focus on:

- > Reviewing and making recommendations in relation to the statutory, preliminary final and interim financial results
- > Reviewing the cash generation of the business
- > Approval of the internal audit plan and assessing the effectiveness of the internal audit function
- > Reviewing the adequacy of internal financial and IT controls

Steve Barber

Chair of the Audit Committee

Remuneration

Directors' Remuneration Report

We continue to work hard on normalising remuneration towards a better AA.

Our focus is on rewarding for performance and creating alignment between stakeholders.

Suzi Williams

Chair of the Remuneration Committee

Remuneration membership and attendance

Current Committee members	Date appointed
Suzi Williams (Chair)	1 Nov 2015 ¹
Steve Barber	27 Jun 2018 ²
Andrew Blowers	27 Jun 2018 ²

Former Committee members	Date resigned
John Leach	27 Jun 2018 ²
Andrew Miller	7 Jun 2018 ³

Committee meeting attendance	Attended/max. possible
Suzi Williams (Chair)	6/6
Steve Barber	3/3
Andrew Blowers	4/4

Former Committee members	
John Leach	2/2
Andrew Miller	1/3

¹ Suzi Williams became Chair of the Remuneration Committee on 1 August 2017.

² On 27 June 2018, John Leach stepped down from the Remuneration Committee and Steve Barber and Andrew Blowers were appointed to it.

³ Andrew Miller stepped down from the Remuneration Committee and Board on 7 June 2018.

All members are independent Non-Executive Directors (NEDs) and the Chair was considered independent on appointment to that role.

A number of unscheduled meetings were held during the year at short notice to discuss specific matters. These meetings are not reflected in the table above.

Other attendees

The CEO, CFO, Chief People Officer, Human Resources Director and Deloitte attended parts of Committee meetings by invitation in order to provide the Committee with additional context. As with all Board Committees, the Company Secretary acts as secretary and provides support and sufficient resources. Where necessary, the Committee has direct access to independent professional advisors to undertake their duties.

No individual was present when their own remuneration was being determined.

Introduction

On behalf of the Board and in my capacity as Chair of the Remuneration Committee (the Committee), I am pleased to present the Directors' Remuneration Report for the year ended 31 January 2019 – a year in which we have made real progress on normalising remuneration structures and governance at the AA.

Aligning remuneration to the AA strategy

At the start of the year, our Chairman and CEO set out their clear ambition to build a better AA for our stakeholders, putting service, innovation and data at the heart of the AA.

As part of this strategic reset, the Remuneration Committee's objectives were restated:

- (1) to transition over time towards more conventional, good practice UK listed company pay arrangements; and
- (2) to consider executive pay structures which best align to the new strategy – in terms of both governance and shareholder value creation.

Both of these objectives are guided by transparency and a commitment to rewarding performance fairly, in the context of the shareholder experience.

Over the last year, good progress has been made against both objectives. On the first, a consistent approach to long-term incentives for Executive Directors has been taken, with the grant of more conventional Performance Share Plan (PSP) awards to both Simon Breakwell and Martin Clarke in November 2018 and the voluntary forfeiture of Martin Clarke's legacy Management Value Plan (MVP) award in 2018.

I am pleased to report that progress has also been made against the second objective. Since the publication of last year's annual report, the Committee has participated in several rounds of constructive consultation with our major shareholders and investor bodies.

This has allowed us to consider and discuss various structures and performance metrics with a view to incentivising and retaining our Executive Directors and Executive Committee during the transformation of our business. I would like to personally thank shareholders and investor bodies for their engagement in this process.

Shareholder engagement

During the year, the Committee conducted three separate rounds of engagement reaching approximately 60% of our shareholder base. In particular, feedback was sought on the performance criteria for the incentive arrangements of our Executive Directors and Executive Committee. This was done with a particular view to incentivising the successful execution of our new strategy. We were also keen to listen and to learn about the reasons behind the low votes on remuneration at the 2018 AGM.

While it is not always possible to reach a consensus of views, especially in the AA's diverse shareholder base, we have sought to directly address the common themes emerging from our discussions. These were in particular around alignment with The AA's strategy and the importance of our business being focused simultaneously on growth and the right kind of net debt reduction. We have listened to our shareholders and following further reflection by the Board, the Committee has made the following changes to our incentive framework from 2019/20:

- > No less than one-third of the annual bonus will be weighted to net debt reduction.
- > No more than 20% of the annual bonus will be weighted to strategic measures. A reduced strategic element will be retained, to ensure alignment with key strategic projects and milestones which are pivotal to our turnaround.
- > The introduction of a net debt 'gateway' condition on the PSP will ensure the team are simultaneously focused on growth and on the right kind of debt reduction. If net debt is greater than the required level, there will be no vesting under the EBITDA and TSR elements of the PSP, regardless of delivery against those measures. This will ensure that growth is responsibly delivered and incentives are driving sustainable, long-term behaviours.

The Committee has consulted with major shareholders on the detailed targets. This consultation is still ongoing and therefore the final targets have not been included in this Report. Once the final targets have been determined, the Committee intends to provide disclosure of the targets on our website prior to the AGM on 5 June 2019.

Context of business performance

Over the last year, the Company has continued to achieve good operational performance across key strategic initiatives in Roadside and Insurance, in spite of an increasingly challenging and competitive landscape. Several programmes of cost reduction, as well as a focus on top line growth, have enabled our continued level of performance resulting in us meeting our external guidance for both Trading EBITDA and capex in 2019. This has been achieved against the backdrop of continued uncertainty caused by Brexit and tough market conditions.

Our full year results, while significantly down from last year reflect the deliberate decision by the Board to invest for the future in digital, and position the AA as the pre-eminent membership services organisation. However, the Committee recognises that circumstances continue to be challenging. We are mindful that we are yet to see the recovery in share price we would have hoped for.

Implementing the policy in 2019/20

There will be no salary increases for Executive Directors for 2019/20.

- > As noted above, as a result of consultation with our shareholders, a number of changes will be made to the proposed incentive framework in 2019/2020. These changes reflect shareholder feedback on the importance of net debt reduction, and the Board's priority to position the business to be sustainably refinanced in 2022. Key changes include a commitment to have no less than one-third of the annual bonus focused on net debt reduction, no more than 20% of the annual bonus weighted to strategic measures, and the introduction of a net debt 'gateway' on the PSP.
- > The Committee also refreshed the target setting framework so that target performance pays out 50%, rather than 60% of maximum, under the annual bonus.
- > For the second year running, the Committee determined that reduced PSP awards will be made, reflecting the decline in share price and shareholder experience.
- > Current Executive Directors receive a pension cash allowance of 11.7% of salary. For any new Executive Director going forward, the Committee will seek to set pension contributions in line with the majority of the workforce.

Committee terms of reference and wider workforce pay arrangements

The role and remit of the Committee was reviewed during the year ended 31 January 2019 and has been broadened to include a more formal and wider consideration of our reward framework and of fairness across the organisation.

As a result of the review, the Committee plans to regularly debate and discuss oversight of key people policy areas such as performance management, diversity and inclusion as well as gender pay reporting and the AA's reward framework.

Following the introduction of the new Corporate Governance Code (the New Code), which took effect for the AA from 1 February 2019, during the year, work was undertaken to ensure that the AA will comply with the Code from 2019/20.

This continuing work is focused on reviewing the expanding role of the Committee, continually improving the Board's effectiveness and looking at the Committee's enhanced role and responsibility for overseeing remuneration and policies in respect of the Board, Executive Committee and wider workforce.

Work undertaken to date includes:

- > a review of the culture of the Company to ensure that it aligns with its strategy and values;
- > exploring the Board's role in leading by example and promoting the Company's culture;
- > taking into account the importance of promoting long term shareholdings to align with shareholder interests;
- > determining the manner in which the Company will seek engagement with shareholders on significant matters related to their areas of responsibility; and
- > ensuring shareholders' views are being taken into account by the Board and are considered in their decision-making.

The Board is embracing the new requirements to strengthen employee representation by engaging with the wider employee population through the appointment of a designated NED to meet with representatives of employee forums on a bi-annual basis.

For the 2019/20 financial year, I will be the designated Director responsible for this and I look forward to gaining a deeper understanding of the views of our workforce.

I propose to do this not only through group sessions but also through smaller meetings and online discussion forums, encouraging maximum participation across the business. Further details will be provided in next year's report.

Committee changes

We entered 2019 with a refreshed Remuneration Committee and support team. Andrew Blowers and Steve Barber were appointed to the Committee on 27 June 2018. As SID and Audit Chair they bring valuable skills and insight to the Committee. Andrew Miller stepped down from the Committee (and the Board) at the AGM on 7 June 2018. John Leach, the Chairman of the Board stepped down from the Committee on 27 June 2018, thereby complying with good governance standards. I would like to thank both John and Andrew for their input to the Committee over recent years.

During the year, we have strengthened the remuneration team and increased our diversity by appointing a new General Counsel and Company Secretary, Nadia Hoosen, and Chief People Officer, Linda Kennedy, in July 2018 and January 2019 respectively. Details of their previous roles and the valuable experience that they have brought to the AA are shown on page 56.

AGM 2019

We hope you will support the Directors' Remuneration Report at our AGM in June 2019. I will be available at the meeting to answer any questions you may have regarding the work of the Committee.

Suzi Williams

Chair of the Remuneration Committee

Key remuneration decisions and out-turns for 2018/19

- > No salary increases were awarded to Executive Directors for 2018/19.
- > Annual bonus out-turns of 64% of maximum for Simon Breakwell and 74% of maximum for Martin Clarke. These reflect the achievement of the EBITDA target, notwithstanding significant investments being made for growth and embedding of a new strategy during the year, as well as strong performance against strategic objectives, particularly S&P rating and debt management. The Committee exercised downward discretion to override the formulaic outcome to recognise the shareholder experience during the year.
- > Reduced PSP awards were granted in November 2018, subject to TSR, EBITDA and net leverage ratio performance conditions. Awards were reduced by c.15%, to 171% of salary (from a usual maximum award of 200% of salary), to take account of share price performance during the year. This award is subject to a two-year holding period after vesting.
- > Since IPO, and in a time of challenging business performance, no long-term incentive schemes have paid out, demonstrating that the interests of Executive Directors and the Executive Committee are aligned to those of our shareholders.

FY19 remuneration at-a-glance

EBITDA

£341m

2018: £391m

S&P Rating

BBB-

2018: BBB-

Net debt

£2.7bn

2018: £2.7bn

How was our policy implemented in FY19?

			How we implemented in FY19																	
Key component	Feature	Comments	Chief Executive Officer	Chief Financial Officer																
Basic salary and core benefits	To attract, retain and motivate executives	No base salary increases were made to Executive Directors in the year Benefits include retirement benefits, car and private medical benefits	£813k	£561k																
Annual bonus	To incentivise the delivery of annual financial, strategic and operational objectives	Maximum bonus opportunity for the CEO is 150% base salary and for the CFO 120% base salary Application of a 10% downward discretion, reflecting shareholder experience	£673k	£425k																
Deferred element of bonus	To facilitate alignment with shareholders and aid in satisfying the minimum shareholding requirement	20% of the CEO's FY19 bonus will be deferred	£135k Deferred (out of £673k)	N/A																
PSP	To award for the delivery of performance against long-term strategic objectives and provide alignment with the interests of shareholders	Awards of up to 200% base pay may be made Reduced awards of 171% for the 2018 award Targets for the 2018 award: <table><tr><td></td><td>Relative TSR</td><td>Trading EBITDA</td><td>Net debt leverage Ratio</td></tr><tr><td>Threshold</td><td>Equal to index</td><td>£370m</td><td>6.7x</td></tr><tr><td>Stretch</td><td>Index + 5% per annum</td><td>£385m</td><td>6.4x</td></tr><tr><td>Maximum</td><td>Index + 10% per annum</td><td>£415m</td><td>5.9x</td></tr></table>		Relative TSR	Trading EBITDA	Net debt leverage Ratio	Threshold	Equal to index	£370m	6.7x	Stretch	Index + 5% per annum	£385m	6.4x	Maximum	Index + 10% per annum	£415m	5.9x	No awards vesting	No awards vesting
	Relative TSR	Trading EBITDA	Net debt leverage Ratio																	
Threshold	Equal to index	£370m	6.7x																	
Stretch	Index + 5% per annum	£385m	6.4x																	
Maximum	Index + 10% per annum	£415m	5.9x																	
Shareholding requirements	Executive Directors are required to build and retain a minimum shareholding in the Company, built up over time	CEO	200% of salary	29% of salary																
		CFO	200% of salary	190% of salary																

Annual report on remuneration

This section of the Directors' Remuneration Report sets out a summary of how the Company's Remuneration Policy was implemented in the year ended 31 January 2019 and how it will be implemented for the year ending 31 January 2020.

Audited sections

The current regulations require the Company's auditor to report to the members on the 'auditable part' of this report (marked*) and to state, in its opinion, that this part of the report has been properly prepared in accordance with the Companies Act.

The Committee reviews the framework for remuneration arrangements for its Executive Directors and other members of the Executive Committee on an annual basis.

The Committee continues to believe that remuneration packages for Executive Directors should be focused on variable rewards with challenging objectives, which are in line with the business, culture and customer needs.

Single figure of remuneration*

The table below provides a single figure of remuneration for each Executive Director for the year ended 31 January 2019. The information for NEDs is included in the table on page 80.

Director	Year	Salary £000	NED fees £000	Taxable Benefits ³ £000	Retirement Benefits ⁴ £000	Annual Bonus ⁵ £000	Long Term Incentives ⁶ £000	Total £000
Simon Breakwell ^{1,2}	2019	700	–	29	84	673	–	1,486
	2018	375	48	2	29	311	–	765
Martin Clarke ⁷	2019	480	–	25	56	425	–	986
	2018	480	–	24	56	–	–	560

1 For the year ended 31 January 2018, the remuneration shown for Simon Breakwell relates to his position as CEO from August 2017 and fees paid in respect of his previous Non-Executive Director role.

2 For the year ended 31 January 2018, Simon Breakwell received a supplement for retirement benefits of 11.7% from the date of his appointment as permanent CEO.

3 The components of taxable benefits include private medical insurance, permanent health insurance, life assurance and car related benefits.

4 Value of retirement benefits made by the Company in the year equal to 11.7% of annual basic salary.

5 Value of annual bonus payable in respect of the year and based on performance for the financial year.

6 No long-term incentives vested in either the year ended 31 January 2018 or the year ended 31 January 2019. Martin Clarke forfeited his award under the MVP in November 2018 and no longer has any interest in this scheme.

7 For the year ended 31 January 2018, Martin Clarke waived his annual bonus.

Base salary*

Year ended 31 January 2019

There were no increases to base salary for either Executive Director in the year ended 31 January 2019. Average base salary increase for all other employees was 2.2%.

Year ending 31 January 2020

There will be no increase to base salary for Executive Directors in the year ending 31 January 2020. Average base salary increase for all other employees has been budgeted at 1.5% and any such increase will be applied in April 2019.

Retirement benefits*

Year ended 31 January 2019

Cash payments in lieu of retirement benefit, equivalent to 11.7% of salary, were paid to both Simon Breakwell and Martin Clarke.

Recognising the New Code guidelines, the Committee would seek to set the pension contribution of a new Executive Director appointee in line with the majority of the workforce.

Year ending 31 January 2020

There are no anticipated changes to retirement benefits for Executive Directors in the year ending 31 January 2020.

Short Term incentive: annual bonus*

Year ended 31 January 2019

For the year ended 31 January 2019, the annual bonus was based on a combination of financial measures and strategic objectives as set out in the table below.

In line with the approved Remuneration Policy, the CEO and CFO had an incentive opportunity in the range of 0% to 150% of base salary and 0% to 120% of base salary respectively.

The Remuneration Committee carefully considered performance against the annual bonus plan targets for the year ended 31 January 2019.

Annual bonus scheme measures and weightings for the year ended 31 January 2019 are set out below:

Director	Financial Performance		Finance Condition ¹		Strategic Objectives ¹		Total
	Weighting	Measure(s)	Weighting	Measure(s)	Weighting	Measure(s)	
Simon Breakwell	60%	Trading EBITDA	20%	S&P's ratings	20%	People	100%
Maximum of 150% base salary				decision in respect of the Group's debt structure at BBB- and debt management		IT transformation and cyber security	
20% of any payout deferred in shares						Business plan and forward looking strategic vision	
						Strategic planning for insurance business	
Martin Clarke	50%	Trading EBITDA	50%	S&P's ratings	N/A	N/A	100%
Maximum of 120% base salary				decision in respect of the Group's debt structure at BBB- and debt management			

1 The Finance Condition and the Strategic Objective measures were subject to a minimum trading EBITDA performance underpin of £340m.

Performance achievement for the year ended 31 January 2019

Financial Performance

For the year ended 31 January 2019, the financial performance measure for both Simon Breakwell (60%) and Martin Clarke (50%) was linked to Trading EBITDA, with targets being set in line with the new Company strategy announced in February 2018. Performance against this measure is set out in the table below:

Performance measure	Performance achieved	Threshold (0%) ¹	Target (60%)	Maximum	Outcome (% of element)
Trading EBITDA	£341m	Below £340m	£340m	£345m	64.0%

¹ While in previous years the threshold has been set at 95% of target, for FY19 the Committee determined that a more stretching threshold should be set, such that were trading EBITDA to be below the target level, the default position would be nil bonus.

Finance condition and strategic objectives

Simon Breakwell

20% of the total bonus award for Simon Breakwell was linked to both debt management and the confirmation by S&P of its rating decision of the Group's Class A Notes at BBB-. The strategic background to the measure and the performance achieved is set out below.

S&P rating – Following the strategy reset, our key debt rating agency, S&P, asked to review the AA rating. This was a binary moment for the business, as a downgrade would have had severe consequences to the business, not least creating a major inability for the business to refinance cost-effectively. For this reason it was included as a key measure for FY19. The leadership team dedicated themselves to managing this process, and, in the opinion of the Committee and the Board ensured an efficient, timely and positive outcome, in spite of adverse external headwinds. Consequently the milestone objective of S&P confirming its rating decision of the Group's Class A Notes at BBB- was considered to be met in full.

Debt management – Over the last twelve months, efficient management of debt has been a key strategic focus. The debt refinancing initiative secured an additional three year window for the business at no additional interest cost. This was a significant achievement for the business, and management's choices on strategy & timing, and the excellent overall implementation, secured significantly lower interest terms. Had the leadership team waited even six months, the cost to the business would have been appreciably higher. An interest rate of under 5% was secured, (whereas the Board considers that this could have been around 5%/6% or more). This decisive action avoided the business attempting to refinance at a time when the pre-Brexit sterling bond market was stagnant, and enabled the Group to move smoothly beyond this project to refocus on growth and innovation. The Committee considered that this debt management objective was met in full.

Finance condition	Achievement against objective	Outcome
Debt management	See commentary above	10/10
S&P rating		10/10

The balance of the award (up to 20%) was based on a scorecard of strategic priorities identified by the Board. The strategic objectives related to people, the IT transformation/cyber security, business plan and forward-looking strategy, and a strategic insurance objective.

The Committee determined that Simon Breakwell delivered strong performance against his individual objectives.

Key performance highlights from the strategic targets are summarised in the following table:

Simon Breakwell's strategic objectives

Performance measure	Performance achieved	Outcome
People	<ul style="list-style-type: none"> > Delivery of a robust and future-proof organisation, including a new leadership team and improved organisational structure > Driven significant improvement in the employee cultural index, with particular focus on improved communication and engagement 	22/25
IT transformation and cyber security	<ul style="list-style-type: none"> > Good progress on reducing risk and bringing IT programmes under control. More progress to be made, particularly on cyber proofing the business > Next Phase IT Transformation underway, with appointment of new CIO and new IT Organisation > Significantly improved systems stability and security across the IT estate 	16/25
Business plan and forward looking strategic vision	<ul style="list-style-type: none"> > Implemented revised targets for the business with robust plans to deliver > Organisation and stakeholders united around delivery, with clear governance in place 	16/25
Strategic Insurance Project	<ul style="list-style-type: none"> > Good progress made towards a three year strategy and plan for the insurance business, taking into consideration the regulatory requirements of the FCA and AAISL > Long term strategic scenarios considered and work ongoing in this regard 	10/25
Total strategic objectives achievement		64/100

Both the financial conditions and the strategic objectives were subject to a minimum trading EBITDA performance underpin of £340m, which was achieved.

Martin Clarke

30% of the total bonus award for Martin Clarke was linked to the confirmation by S&P of its rating decision of the Group's debt structure at BBB-.

The balance of the award (up to 20%) was linked to the debt management of the Group.

Performance against these elements is the same as for Simon Breakwell, and these finance conditions were achieved in full. This reflects that these were collective strategic objectives delivered together by the CEO and the CFO of the business.

Executive Director overall bonus outcomes

Based on the above, the formulaic outcomes for Simon Breakwell and Martin Clarke were 71% and 82% as a percentage of maximum, respectively. The Committee carefully considered the bonus outcomes and recognised that this has been a challenging year of transformation, led strongly by the CEO and CFO. However, taking into account the share price performance during the year and the shareholder experience, the Committee considered it appropriate to apply some downward discretion to the formulaic outcome.

As a result, the Committee determined that the bonus outcome for each of the Executive Directors should be reduced by 10%. Applying this downward discretion resulted in a final outcome of 64% for Simon Breakwell and 74% for Martin Clarke.

Simon Breakwell's final bonus for the year ended 31 January 2019 was £672,840 of which 20% will be deferred into shares for three years.

Martin Clarke's final bonus payment for the year ended 31 January 2019 was £425,088.

Year ending 31 January 2020

During the year, the Committee consulted extensively with its shareholders on incentive measures. Responding directly to shareholder views, two changes were made to the annual bonus:

- > A net debt measure was included, reflecting the current focus on reducing net debt.
- > The proportion based on strategic objectives was limited to 20%.

The expected performance measures and their weightings for the year ending 31 January 2020 are set out below:

Performance measures	Expected weighting
Group EBITDA	46.67%
Net debt	33.33%
Strategic individual objectives	20%

For the bonus framework for 31 January 2020, payout at target has been reduced from 60% to 50%.

The Board has determined that the disclosure of performance targets for the year ending 31 January 2020 continues to be commercially sensitive and they are therefore not disclosed in this report. These targets are determined within the context of the longer-term business plan and the disclosure of these targets could give information to the AA's competitors to the detriment of business performance.

The Committee will disclose targets and performance against all of these measures in next year's Directors' Remuneration Report.

Share-based incentive plans*

The Committee strongly believes that long-term share awards incentivise and reward Executive Directors for the delivery of long-term business goals. Therefore, as part of the commitment to creating more conventional incentive structures, the Committee makes annual awards under the PSP.

Year ended 31 January 2019

No PSP vested in the year ended 31 January 2019.

Due to our extended shareholder consultation process, the appointment of a new CEO and the announcement of a new Company strategy during the year, the 2018 PSP awards were made six months later than originally anticipated, in November 2018.

These awards are subject to the performance conditions set out in the table overleaf. This included a net debt leverage ratio, reflecting shareholder feedback and the Board's focus on responsible growth and debt management.

Having considered the impact of share price performance during the year, the Committee determined that reduced awards should be made under the PSP. Awards equivalent to 171% of salary were made to Simon Breakwell and Martin Clarke, which was a reduction of c.15% compared to a normal maximum award of 200% of salary. The Committee also determined that to reflect the shareholder experience, a longer than normal averaging period would be used to calculate the starting measurement for TSR, resulting in a higher TSR starting price of £1.17.

Notwithstanding the six month delay in grant, these awards will vest 3 years after grant. The vesting date will be November 2021.

In addition, awards are subject to a two year post-vesting holding period, as well as malus and clawback provisions.

All performance conditions and metrics for the November 2018 PSP award were made available on the Company's corporate website and are set out below:

Measure	Weighting	Minimum Threshold (25% vesting)	Stretch (70% vesting) ²	Maximum (100% vesting)
Relative TSR ¹	50%	Equal to index	Index + 5% per annum	Index + 10% per annum
Trading EBITDA	30%	£370m	£385m	£415m
Net leverage ratio ³	20%	6.7x	6.4x	5.9x

1 Relative TSR is measured in comparison to the FTSE 250.

2 It is intended that going forward, any future PSP award will be based on a simple straight line basis between threshold and maximum.

3 Net leverage ratio: Trading EBITDA leverage ratio will be adjusted to reflect the impact of disposals, acquisitions and capital raising. Finance leases or the impact of finance leases when the Company adopts IFRS 16 were not included.

The table below details all awards held by Executive Directors under the PSP at 31 January 2019.

	Grant date	Number of shares	Percentage vesting at threshold	Performance period	Vesting period	Holding period
Simon Breakwell	27 October 2017	1,148,6061	See note below ²	FY18 to FY20	3 years	50% of any vested shares will be released on the 4th anniversary of the grant date, with the balance released on the 5th anniversary of the grant date
	7 November 2018	1,157,0243	25% of maximum	FY19 to FY21	3 years	100% released on the 5th anniversary of the grant date
Martin Clarke	7 November 2018	793,3884	25% of maximum	FY19 to FY21	3 years	100% released on the 5th anniversary of the grant date

- 1 The face value of the award, based on a 10 day average of 161.5 pence, is £1,855,000. This was equivalent to 247% of Simon Breakwell's annual interim salary for FY18. Relative TSR, which will be measured from a starting price of 161.5p, is based on the 10 day average share price up to and excluding the grant date of 27 October 2017.
- 2 Trading EBITDA – 10% of element; Net leverage ratio – 10% of element; and Relative TSR – 25% of element.
- 3 The face value of the award, based on a 10 day average of 103.2 pence, is £1,194,130. This was equivalent to 171% of Simon Breakwell's annual salary for FY19. Relative TSR, which will be measured from a starting price of 117p, is based on the 6-month average share price up to and excluding the grant date (7 May to 6 November 2018).
- 4 The face value of the award, based on a 10 day average of 103.2 pence, is £818,832. This was equivalent to 171% of Martin Clarke's annual salary for FY19. Relative TSR, which will be measured from a starting price of 117p, is based on the 6-month average share price up to and excluding the grant date (7 May to 6 November 2018).

Year ending 31 January 2020

Following extensive consultation with shareholders, it was agreed that PSP awards in the FY20 year will be subject to two equally weighted metrics, relative TSR and Trading EBITDA.

In addition, responding to shareholders who want to see the business focus simultaneously on growth and the right kind of net debt reduction, the Committee has introduced a net debt 'gateway' under the PSP. This means that if net debt is not at the required level, there will be no vesting whatsoever under the EBITDA and TSR elements of the PSP. This also reflects the Board's priority around positioning the business to be sustainably refinanced in 2022, whilst ensuring that growth is responsibly delivered.

The Committee takes alignment of the shareholder experience and management incentivisation seriously. Responding to feedback, and as we did last year, the Committee intends to make a reduced award compared to the normal maximum. It is also intended that again, the TSR start price will be set using a longer than normal averaging period, resulting in a higher start price.

The table below shows the framework agreed for the 2019 PSP. The Committee has consulted with major shareholders on the detailed targets. This consultation is still ongoing and therefore the final targets have not been included in this report. Once the final targets have been determined, the Committee intends to provide disclosure of the targets on our website prior to the 2019 AGM in June.

Awards made to Executive Directors will be subject to a two-year post-vesting holding period, and malus and clawback provisions will apply.

It is proposed that measures and weightings will be as follows:

	Weighting
Relative TSR	50%
Trading EBITDA	50%
Net Debt 'Gateway' Underpin	Prior to measurement of any of the performance conditions above, the 2019 PSP will be subject to a net debt gateway condition. If this is not achieved, the 2019 PSP will not vest.

Legacy arrangements

The MVP shares structure was implemented at Admission. Martin Clarke voluntarily forfeited his MVP shares. No current Executive Directors hold MVP shares at the date of this report, and therefore the Committee will not report on the MVP going forward.

All-employee share plans*

Employee Share Incentive Plan (ESIP)

The ESIP is an all-employee, HMRC approved scheme which enables eligible participants to purchase market priced shares by entering into a partnership share agreement and holding such shares in trust for up to five years.

Martin Clarke received the following shares in respect of the ESIP for the period ended 31 January 2019:

	Partnership shares purchased	Matching shares allocated	Dividend shares allocated	Total number of shares paid into plan
Martin Clarke	3,978	3,9781	349	8,305

¹ Of which 689 had met their 3-year holding period as at 31 January 2019.

Additional information

Shareholding requirements*

Executive Directors are required to build and retain a minimum shareholding in the Company equivalent to 200% base pay over a reasonable timeframe, typically within five years of appointment.

The Committee views these holdings as a key means of aligning their interests with those of shareholders.

Simon Breakwell voluntarily invested his full after-tax FY18 annual bonus into shares. Additionally he purchased a further 102,018 shares on 28 September 2018 and a further 20% of his FY19 annual bonus out-turn will be invested in the Company's shares. Simon will continue to build up his shareholding over the coming years.

The table below sets out the Directors' (and any relevant connected persons') share interests in the ordinary shares of the Company as at 31 January 2019.

	Holding requirement as a % of base pay	Shares held outright ¹	Deferred shares ²	PSP – awards subject to performance conditions ³	Shareholding (% of salary) ⁴
Simon Breakwell	200%	244,267	–	2,305,630	29%
Martin Clarke	200%	1,092,516	3,289	793,338	190%

1 Includes partnership shares and dividend shares under the all-employee ESIP, and 689 matching shares under the same scheme that had met the three-year holding period as at 31 January 2019. Ordinary dividends were received on the shares held outright during the year.

2 Consists of matching shares under the ESIP that were yet to meet the three-year holding period as at 31 January 2019.

3 PSP Awards granted in October 2017 and November 2018 under the 2015 PSP.

4 Based on the closing share price on 31 January 2019 of 83.48p.

Save for Martin Clarke's ongoing ESIP monthly allowances, there have been no changes to the interests reported between 31 January 2019 and 2 April 2019.

Service contracts

The Executive Directors are employed under rolling service contracts that do not have fixed terms of appointment and are normally subject to a 12-month notice period. Under the term of his appointment, Simon Breakwell had an initial notice period of 18 months, which has now automatically reverted to the Company's standard 12-month notice period with effect from 25 March 2018.

Payments to past Directors

In the year ended 31 January 2019, there were no payments made to past Directors.

Payments for loss of office

In the year ended 31 January 2019, there were no payments made to Executive Directors, past or present, in compensation for loss of office.

Advice and services provided to the Committee

Over the course of the year ended 31 January 2019, the Committee was advised on matters relating to executive remuneration by Deloitte LLP. During the year, Deloitte LLP also provided the Company with HR consulting services, IT consulting services and taxation advice.

Deloitte LLP is one of the founding members of the Remuneration Consultants' Group and adheres to the Remuneration Consultants' Group's Code of Conduct.

The Committee deems the advisers to be independent from the Company and the advice it received during the year, to be appropriate and objective.

The fees paid for services are set out below:

Company	Nature of services	2019 £000	2018 £000
Deloitte LLP	Remuneration advisers	101	77

Percentage change in CEO remuneration

The table below illustrates the percentage change in salary, benefits and annual bonus for the year ended 31 January 2019 for the CEO as against all other employees.

	% change in base salary	% change in benefits ²	% change in annual bonus
CEO ¹	0%	625%	-10.1%
All employees ³	2.2%	0%	20.2%

1 Year on year CEO comparison represents the annualised figure for Simon Breakwell.

2 The increase in CEO benefits is due to the inclusion of car benefit for the year ended 31 January 2019.

3 Change in base salary for employees represents the average increase implemented as part of the Company's annual pay review in April 2018. The change in annual bonus represents the average bonus paid to employees.

The Remuneration Committee is mindful of pay conditions in the wider group and take into account wider pay trends when determining remuneration for Executive Directors. In line with new requirements published in June 2018 for companies with 250 employees or more, the Company will comply in full with the requirement to publish the ratio of their CEO's 'single figure' total remuneration to the median, 25th and 75th percentile total remuneration of their full-time equivalent UK employees in next year's report.

Relative importance of spend on pay

The difference in actual expenditure between 2018 and 2019 on remuneration for all employees in comparison to Trading EBITDA and distributions to shareholders by way of dividends is set out in the graphs below:

Comparing pay to performance

The table below shows the total remuneration paid to the CEO and/or Executive Chairman (as relevant) in each year since Admission.

		FY15	FY16	FY17	FY18 ¹	FY19
CEO single figure of remuneration	Simon Breakwell:	–	–	–	£765k	£1,486k
	Bob Mackenzie:	£1,113k	£1,557k	£1,369k	£469k	–
Annual bonus pay-out (% of maximum)	Simon Breakwell:	–	–	–	69%	64%
	Bob Mackenzie:	100%	79%	57%	NIL	–
Long-term incentives vesting (% of maximum)	Simon Breakwell:	–	–	–	n/a	n/a
	Bob Mackenzie:	n/a	n/a	n/a	NIL	–

¹ The figures shown for each individual in FY18 reflect part-year figures. Simon Breakwell was appointed on an interim basis on 1 August 2017 and this became permanent on 27 October 2017. Bob Mackenzie was dismissed on 1 August 2017.

Remuneration for Non-Executive Directors*

Remuneration for NEDs is set by the Board, taking account of the commitments and responsibilities of the roles and their participation in the various Committees of the Company. The appropriateness of fees is reviewed on an annual basis. Fees have not increased since IPO.

The fees for NEDs for the year ended 31 January 2019 are set out in the tables below. NEDs are not eligible to participate in annual bonus, LTIP and retirement benefit arrangements.

Name	2019			2018		
	Fees £000	Benefits £000	Total £000	Fees £000	Benefits £000	Total £000
John Leach ¹	275	–	275	223	–	223
Steve Barber ²	61	–	61	–	–	–
Andrew Blowers ³	137	–	137	129	–	129
Mark Brooker ⁴	45	–	45	–	–	–
Andrew Miller ⁵	34	–	34	95	–	95
Cathryn Riley ⁶	126	–	126	–	–	–
Suzi Williams ⁷	95	–	95	87	–	87

¹ John Leach was appointed as Chairman of the Board on 1 August 2017 and his fees for FY18 were pro-rated accordingly.

² Steve Barber was appointed as a NED and Chair of the Audit Committee on 11 June 2018 and was appointed to the Remuneration and Risk Committees on 27 June 2018.

³ Andrew Blowers has been SID since 1 August 2017 and Chair of the Nomination Committee from 27 June 2018. He was appointed Chair of the Company's subsidiary, AA Insurance Holdings Limited (AAIHL) on 18 June 2018. He was previously Chair of the Company's subsidiary, AA Underwriting Insurance Company Limited, until 12 June 2018 and was paid an additional fee of £27,500 per annum for that role, which no longer applies.

⁴ Mark Brooker was appointed as a NED on 10 July 2018.

⁵ Andrew Miller retired on 7 June 2018 at the 2018 AGM.

⁶ Cathryn Riley was appointed as a NED on 28 February 2018 and Chair of the Risk Committee on 27 June 2018. Prior to this she was Chair of the Company's subsidiary, Automobile Association Insurance Services Limited (AAISL), until 18 June 2018. Cathryn Riley has been a NED of AAIHL since 18 June 2018.

⁷ Suzi Williams was appointed Chair of the Company's Remuneration Committee on 1 August 2017.

Annual Fees payable to the Non-Executive Chairman and NEDs are set out in the table below.

	FY19 fee	FY18 fee
Non-Executive Chairman	£275,000	£275,000
Senior Independent Director (SID)	£12,500	£12,500
Basic fee for other NEDs	£80,000	£80,000
Additional fee for chairing of Board Committee	£15,000	£15,000

Non-Executive Director shareholdings*

Whilst there are no shareholding requirements for NEDs, this is encouraged within the Company. The table below details ordinary shareholdings of NEDs at 31 January 2019.

Name	Ordinary shares of 0.1p	
	31 January 2019	31 January 2018
John Leach	32,812	32,812
Steve Barber ¹	100,000	–
Andrew Blowers	63,945	9,160
Mark Brooker ²	19,221	–
Cathryn Riley ³	–	–
Suzi Williams	15,021	–

1 Steve Barber was appointed to the Board on 11 June 2018.

2 Mark Brooker was appointed to the Board on 10 July 2018.

3 Cathryn Riley was appointed to the Board on 28 February 2018.

There have otherwise been no changes to the interests reported between 31 January 2019 and 2 April 2019.

Non-Executive Directors – agreements for service

NEDs are appointed under a letter of appointment for an initial term of three years (subject to annual re-election at the AGM) which may be terminated by either party subject to a one-month notice period other than certain conditions under which the Company can terminate with immediate effect. NEDs receive no compensation payments for loss of office. The Company has no age limit for Directors.

In line with the New Code requirements, the length and time commitments of appointments for NEDs will be reviewed on an annual basis.

The details of the NEDs' current terms and dates of current service contracts are set out below:

Name	Date of appointment	Term expires	Notice period
John Leach ¹	26 June 2014	5 June 2019	1 month
Steve Barber	11 June 2018	10 June 2021	1 month
Andrew Blowers ¹	25 September 2014	5 June 2019	1 month
Mark Brooker	10 July 2018	9 July 2021	1 month
Cathryn Riley ^{1,2}	28 February 2018	5 June 2019	1 month
Suzi Williams ¹	1 October 2015	5 June 2019	1 month

1 It is the Company's intention that these expiry dates will be extended as the Board recommends the re-election of John Leach, Andrew Blowers, Cathryn Riley and Suzi Williams at the AGM on 5 June 2019.

2 Cathryn Riley was appointed as a NED of AA plc on 28 February 2018 and Chair of the Risk Committee on 27 June 2018. Prior to these appointments, she was Chair of the Company's subsidiary, AAISL, from 1 April 2016 until 12 March 2018. Cathryn remains a NED of AAHL since 18 June 2018.

Performance graph and table

The chart below illustrates AA Group's TSR performance against the FTSE 250 (excluding investment trusts) since Admission. This provides a general market reference point.

This Remuneration Report has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the 'Regulations') issued under the Companies Act and the UK Corporate Governance Code.

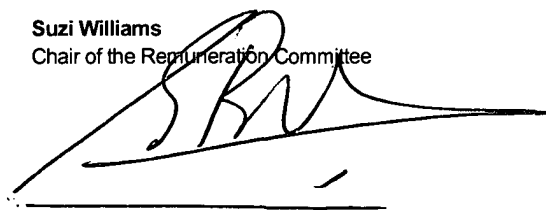
Voting regarding the 2018 Directors' Remuneration Report and Remuneration Policy was as follows:

	Votes for	Votes against	Votes withheld	Total votes
Remuneration Report	355,967,695	74,471,868	2,593	430,442,563
	82.70%	17.30%		
Remuneration Policy	328,112,738	102,326,671	2,746	430,442,409
	76.23%	23.77%		

As noted in this Report, the Committee has undertaken extensive shareholder consultation and has made changes in response to shareholder views. Further information about this consultation can be found on page 72.

Suzi Williams

Chair of the Remuneration Committee



SIMON BREAKWELL

Remuneration policy

This section sets out a summary of the Company's policy on remuneration for Executive Directors. The Remuneration Policy for the year ended 31 January 2019 was approved through a binding vote by shareholders at the 2018 AGM and took immediate effect following the AGM. That Policy will apply for a period of three years from this date.

Remuneration Policy Summary

The policy summary table below is provided below for ease of reference. Where appropriate, references to implementation have been updated. The full approved Policy can be found in the 2018 Annual Report, which is available on the Company website.

BASE SALARY

Purpose and link to strategy	To attract, retain and motivate executives of the calibre required to deliver the Group's strategy.
Operation	When reviewing salary levels, the Committee takes into account a range of factors including: <ul style="list-style-type: none">> The individual's skills, experience and performance> The size and scope of the individual's responsibilities> Market rate for the role> Pay and conditions elsewhere in the Group Salary levels are typically reviewed annually by the Committee.
Maximum opportunity	There is no overall maximum for salary opportunity or increases. Individual salaries are set based on the factors set out above. The Executive Director salaries as at 31 January 2019 are: <ul style="list-style-type: none">> Simon Breakwell: £700,000> Martin Clarke: £480,000
Performance metrics	None.

BENEFITS

Purpose and link to strategy	To provide competitive benefit arrangements appropriate for the role.
Operation	A range of benefits may be provided to Executive Directors including, but not limited to, car related benefits, life cover and private medical insurance. From time to time the Committee may review the benefits provided for individual roles. Additional benefits may be provided where the Committee considers this appropriate (e.g. on relocation). Executive Directors may also participate in any all-employee share plans (including the Company's Employee Share Incentive Plan) operated by the Company from time to time on the same terms as other employees.
Maximum opportunity	There is no overall maximum for benefits. Participation in any HMRC-approved all-employee share plan is limited to the maximum award levels permitted by the relevant legislation.
Performance metrics	None.

RETIREMENT BENEFITS

Purpose and link to strategy	To provide a competitive level of retirement benefits appropriate for the role.
Operation	Executive Directors are eligible to participate in the AA UK pension scheme (or any other similar pension plan operated by the Group from time to time) or receive a cash allowance in lieu of participation. For new hires, the nature and value of any retirement benefit provided will be, in the Committee's opinion, reasonable in the context of market practice for comparable roles and take account of both the individual's circumstances and the cost to the Company.
Maximum opportunity	The maximum benefit is 25% of salary. For the financial year commencing 1 February 2019 the personal pension or cash allowances for Executive Directors will be 11.7% of salary.
Performance metrics	None.

ANNUAL BONUS

Purpose and link to strategy	To incentivise the delivery of annual financial, strategic and operational objectives, which are selected to support our business strategy.
Operation	<p>Performance metrics and targets are set annually to ensure they remain aligned with financial and strategic goals. Bonus levels are determined by the Committee after the year-end, based on an assessment of performance.</p> <p>In order to facilitate share ownership, the Remuneration Committee require a portion of any bonus earned to be deferred into shares over a period of three years (or such other period as the Committee may determine).</p> <p>The Remuneration Committee will be mindful of an Executive's shareholding when determining the level of deferral.</p> <p>For FY20, it is expected that 20% of Simon Breakwell's bonus will be deferred into shares.</p>
Maximum opportunity	<p>The maximum annual opportunity is 150% of salary.</p> <p>For FY19, the maximum opportunity for Simon Breakwell was 150% of salary, and the maximum opportunity for Martin Clarke was 120% of salary.</p> <p>For FY20, the maximum opportunity for Simon Breakwell and Martin Clarke remains unchanged.</p>
Performance metrics	<p>Performance targets will be determined by the Committee at the beginning of each performance period, and may comprise of a combination of financial, strategic, operational and individual targets appropriate for the role.</p> <p>At least 50% of the award will be subject to financial measures.</p> <p>The threshold pay-out for the minimum level of performance will be determined by the Committee taking into account the nature of the target. There will normally be scaled pay-outs for performance between the minimum and maximum thresholds.</p>
Recovery provisions	<p>Malus and clawback provisions apply to all awards.</p> <p>Scenarios in which these provisions may be applied include material misstatement of the Company's financial statement, a material failure of risk management, the bonus outcome being determined on the basis of materially inaccurate information or serious misconduct by the participant.</p>

2015 PERFORMANCE SHARE PLAN

Purpose and link to strategy	<p>To reward for the delivery of performance targets linked to long-term strategic objectives and to provide alignment with the interests of shareholders.</p> <p>The Committee is, as planned, in the process of transitioning to an incentive structure which is more conventional for the UK listed environment. The Performance Share Plan (PSP) will provide the Committee with the facility to make annual long-term share awards subject to performance measures aligned to the success of the Company.</p>
Operation	<p>The PSP was approved by shareholders at the 2015 AGM.</p> <p>Awards of conditional shares (or equivalent) will vest dependent on performance measured over a period of at least three years. Future awards will normally be subject to a two-year holding period following the end of the performance period.</p> <p>The Committee will review the metrics, targets and weightings prior to grant to ensure they are aligned with the long-term strategic goals.</p> <p>Dividends (or equivalents, including re-investment) may accrue in respect of any shares that vest.</p>
Maximum opportunity	<p>The maximum face value of awards in respect of any financial year is 200% of salary.</p> <p>The level of pay-out for the threshold performance hurdle set would normally not exceed 25% of the maximum opportunity. Full vesting will require achievement of the stretch objectives set. There will normally be scaled vesting for performance between the threshold and maximum performance levels.</p>
Performance condition	<p>The Committee will determine the performance metrics, weightings and targets to ensure they are aligned with the corporate strategy.</p> <p>The Committee will seek to engage appropriately with its major shareholders in relation to the performance conditions for initial awards and in respect of changes to criteria for subsequent awards to Executive Directors under this plan.</p>
Recovery provisions	<p>Malus and clawback provisions apply to all awards.</p> <p>Scenarios in which these provisions may be applied include material misstatement of the Company's financial statement, a material failure of risk management, the vesting outcome being determined on the basis of materially inaccurate information or serious misconduct by the participant.</p>

SHAREHOLDING GUIDELINES

Purpose and link to strategy	To aid alignment of Executive Directors with shareholders.
Operation	Executive Directors are expected to build up a holding of 200% of salary. Executive Directors will be expected to build up this shareholding within a reasonable timeframe, typically within five years of appointment.

Remuneration in the wider workforce

The wider employee group participate in long-term, performance-based incentives. Throughout the Group, base salary and benefit levels are set taking into account prevailing market conditions. Differences between Executive Director Pay policy and other employee pay reflect the seniority of the individuals, and the nature of the responsibilities. The key difference in policy is that for Executive Directors a greater proportion of total remuneration is based on variable pay elements. The Committee has oversight of incentive plans operated throughout the Group. Below the Executive Directors, long-term incentives align with the long-term interests of the business and drive behaviours consistent with the values and strategy of the business.

When setting the policy for the remuneration of Executive Directors, the Committee has regard to the pay and employment conditions of employees within the Group. The Committee reviews salary increases and incentive outturns within the wider workforce, to provide context for decisions in respect of Executive Directors. The Committee uses both internal and external measures, including considering pay ratios and pay gaps. The Committee does not use comparison metrics or consult directly with employees when formulating policy for Executive Directors; however, in line with the New Code, the Committee will meet with employee representatives going forward, to discuss remuneration matters and the context in which recommendations are made and decisions are determined.

Consideration of shareholder views

The Committee considers the views of its shareholders and is pleased to work towards best practice. The Company regularly engages with major shareholders to ensure that their views are considered when making key decisions relating to executive remuneration.

Directors' Report

The Directors present their report together with the audited accounts for the year ended 31 January 2019.

Reporting requirements

The AA Group is required to produce a Strategic Report which complies with section 414A of the Companies Act 2006 (the Act). The Group has satisfied its legal requirement to give an overview of its business activities, business performance and developments during the year, and to give an indication of likely future developments, in a way that is fair, balanced and understandable. The following information is included in this Directors' Report by reference and is deemed to be a part of it:

- > Strategic report (pages 17 to 23)
- > Employee involvement and engagement (page 42)
- > Information about our people (pages 41 to 44)
- > Training and career development of disabled employees (page 44)
- > Carbon emissions (page 49)
- > Financial instruments (note 27)
- > Likely future developments (pages 14 to 23)
- > Related party transactions (note 32)
- > Events after the balance sheet date (note 37)

The Corporate Governance Statement, as required by Rule 7.2.1 of the Financial Conduct Authority (FCA) Disclosure and Transparency Rules is set out on pages 52 to 61 of the Corporate Governance Report and forms part of the Directors' Report.

Company status

AA plc (the Company) is a public limited liability company (company number 5149111) and is the parent company of all AA subsidiary companies (the AA). It holds a premium listing on the London Stock Exchange main market for listed securities.

Results and dividends

The results for the year ended 31 January 2019 are set out from page 96. The Company paid an interim dividend of 0.6p per ordinary share on 9 November 2018 (FY2018: 3.6p).

The Board has proposed a final dividend of 1.4p per ordinary share in respect of the financial year ending 31 January 2019 (2018: 1.4p) which, if approved by shareholders at the AGM to be held on 5 June 2019, would give a total dividend in respect of the year ending 31 January 2019 of 2p per ordinary share (2018: 5p).

The Financial Calendar, including important dividend dates, can be found on page 139.

Share capital

All rights and obligations relating to the Company's shares are set out in its Articles of Association (the Articles). The Company's issued share capital, as at 31 January 2019, comprised a single share class of ordinary shares which are listed on the London Stock Exchange and six classes of MVP shares. Details of the movements in the issued share capital can be found in note 23 of the financial statements.

The issued and fully paid share capital of the Company as at 31 January 2019 is as follows:

Class	Nominal value	Number	Amount (£)	% issued share capital
Ordinary	£0.001	613,221,434	613,221	100
MVP shares (A1 shares)	£0.001	8,000,000	8,000	40
MVP shares (B1 shares)	£0.001	8,000,000	8,000	40
MVP shares (C1 shares)	£0.001	8,000,000	8,000	40
MVP shares (A2 shares)	£0.001	12,000,000	12,000	60
MVP shares (B2 shares)	£0.001	12,000,000	12,000	60
MVP shares (C2 shares)	£0.001	12,000,000	12,000	60

Each ordinary share carries the right to one vote at general meetings of the Company. There are no restrictions on the transfer of ordinary shares in the capital of the Company other than those that may be imposed by law from time to time. None of the ordinary shares carry any special voting rights with regard to control of the Company. Except in respect of holding periods that may be imposed on ordinary shares from awards under employee share schemes, the Group is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or voting rights.

The MVP shares are part of an employee share scheme and more details can be found on page 78 of the Directors' Remuneration Report. The MVP shares are not listed on any public exchange and carry no voting rights, except in respect of any rights over the MVP shares. As at the date of this report, all classes of the MVP shares have failed to satisfy any performance conditions at either of its three and four year performance test dates and it is anticipated that they will fail to satisfy their final performance testing in June 2019.

Purchase of own shares

There is a general right of the Company to purchase its own shares.

At the AGM in 2018, the Company was granted the right to acquire up to 61,151,557 of its own shares. No ordinary shares were purchased by the Company during the 2019 financial year (2018: nil) nor to the date of this Annual Report.

The existing authority granted to the Directors to make market purchases of ordinary shares is expected to expire at the end of the AGM to be held on 5 June 2019. Therefore, the Company will seek to renew shareholder authority at the AGM.

Shares held by employee benefit trusts

Data on the Group's share plans can be found at note 34.

Employee Share Incentive Plan (ESIP)	The ESIP allows qualifying employees to acquire shares on beneficial terms in accordance with Schedule 2 and/or Schedule 3 to the Income Tax (Earnings and Pensions) Act 2003. Awards under the ESIP are currently satisfied by the issue of new ordinary shares by the Company. Scheme participants make regular contributions to the ESIP directly from their salary up to a maximum of £150 per month (Partnership Shares) and under the rules of the scheme, the Company issues a matching share element on a 1:1 basis (Matching Shares). An invitation to join, and annual reminders to participate in, the evergreen scheme are sent to all eligible UK employees and information can be found on the Company's intranet. The take-up as at 31 January 2019 was 33% of eligible employees.
Performance Share Plan (PSP)	Pursuant to the Rules of the AA plc Performance Share Plan approved by shareholders on 9 June 2015, options over a total of approximately 13 million ordinary shares have been made to the Executive Directors and certain senior managers between 2017 and 2018. The options were granted at nil cost and are subject to the satisfaction of long term performance conditions. Awards are usually exercisable from the third anniversary of the grant date, subject to any holding periods applicable to the Executive Directors and the Executive Committee.
Senior Management Plan (SMP)	Certain of the Class A2, B2 and C2 MVP shares representing 14.2% of all MVP shares were issued to the Company's Employee Benefit Trust (EBT) in 2016 and any ordinary shares resulting from the conversion of such MVP shares were awarded for the benefit of certain of the senior management team below Board level, subject to satisfaction of specified performance criteria as judged at the absolute discretion of the Remuneration Committee.
Long Term Bonus Plan (LTBP)	During the 2016 financial year, the Company purchased ordinary shares in the market at a cost of £15m in respect of a long-term bonus plan (LTBP) to incentivise certain senior management below Board level and to align their interests with shareholders.
Retention Scheme	On 19 December 2017, the Company issued conditional awards over two million market purchased ordinary shares currently held in trust by the Company's Employee Benefits Trust (EBT) to certain key managers who were already in the LTBP scheme at nil cost.

Given the share price, it is anticipated that the SMP and LTBP schemes will lapse at the end of June 2019 and the Retention Scheme in November 2019. Further details of the PSP, SMP, LTBP and Retention schemes are set out in note 34. Each ordinary share purchased and/or awarded under each scheme carries the right to one vote at general meetings of the Company.

Substantial shareholders

The Listing Rules (LR 9) require us to set out the interests disclosed to us in accordance with the Disclosure and Transparency Rules (DTR 5) as at the end of the period under review, and as at the latest practicable date.

As at 31 January 2019, the Company had been notified in accordance with DTR 5 of the following interests in 3% or more of the issued share capital of the Company:

Name of shareholder	Number of shares	% shareholding as at date of notification
Parvus Asset Management		
Europe Limited	152,617,183	24.89%
Woodford Investment Management Ltd	84,880,320	13.88%
The Capital Group Companies, Inc.	61,053,562	9.96%
Cleveland Square Limited	55,245,377	9.02%
Citigroup Global Markets Limited	49,234,905	8.04%
HSBC Holdings PLC	43,881,981	7.17%
Liontrust Investment Partners LLP	36,572,109	5.97%
Albert Bridge Capital LLP	31,083,096	5.07%
Société Générale SA (SG SA)	30,739,105	5.02%
The Goldman Sachs Group, Inc.	27,784,771	4.56%
Classic Fund Management AG	24,803,145	4.07%
InterTrader Limited	19,691,711	3.21%

Between 31 January 2019 and the latest practicable date prior to the publication of this Annual Report, being 2 April 2019, the Company has been notified in accordance with DTR 5 of changes in the following interests:

Name of shareholder	Number of shares	% shareholding as at date of notification
Albert Bridge Capital LLP	29,358,038	4.79%

Except as stated above, we are not aware of any ordinary shareholders with interests of 3% or more in the issued share capital of the Company.

Over the past two years, the Company has identified a significant increase in the number of non-traditional investors (including hedge funds, short sellers and activists), entering the share register through contracts for differences (such as equity swaps) in order to target stocks that have been underperforming against market expectations and in particular those with a large proportion of debt in the capital structure. The AA register currently consists of 41% non-traditional investors, up from 1% at the time of the IPO. This has made the task of identifying beneficial ownerships challenging and has exacerbated the share price underperformance and volatility. The proportion of short selling on our stock has also steadily increased since IPO and was at 15.23% as at 31 January 2019, making it one of the most shorted stocks in the FTSE and further highlighting the challenges that are encountered in forming a consistent set of views across our shareholder base.

Voting rights

Full voting rights are set out in the Articles and in the explanatory notes that accompany the Notice of the 2019 AGM. These documents are available on the Company's website www.theaapl.com.

Total voting rights as at 2 April 2019 consisted of 613,612,399 ordinary shares.

Dividend Reinvestment Plan

The Company offers a dividend reinvestment plan to shareholders as a cost-efficient way of increasing their shareholding in the Company.

Board of Directors

Board membership and biographical details are provided on pages 54 and 55.

Appointment of Directors

This is governed by the Articles, the Act and the Code. The Board has reviewed the independence of each Non-Executive Director and is satisfied that they are all independent.

Directors' powers

The powers of the Directors are set out in the Company's Articles and the Act.

At the 2018 AGM, the Directors were granted authority to allot shares up to an aggregate nominal amount of £203,838. This authority is expected to expire at the conclusion of the Company's general meeting on 5 June 2019. Therefore, the Company will seek to renew shareholder authority at the AGM.

Directors' interests

The interests of Directors and their immediate families in the shares of the Company, along with details of the long-term incentives awarded to Executive Directors are contained in the Directors' Remuneration Report set out on pages 72 to 84.

No Directors have beneficial interests in the shares of any subsidiary company.

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 2019 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.

Directors' conflicts of interest

The Group has procedures in place for managing conflicts of interest and appropriate internal controls are in place to ensure that any related party transactions involving Directors, or their connected parties, are conducted on an arm's length basis. Directors have a continuing duty to update any changes to these conflicts.

Articles

Any amendment of the Articles requires shareholder approval by special resolution in accordance with applicable legislation.

Significant agreements and change of control

The Company is not party to any significant agreements that would take effect, alter or terminate following a change of control of the Company. However, some of our B2B contracts include change of control provisions in limited circumstances and mandatory redemption provisions on the B Note in the event of a change of control.

Going concern and viability statement

The business activities, together with factors that are likely to affect our future performance and market position are set out in the Chief Executive Officer's review. Financial position, future forecasts and the borrowing facilities are described in the Chief Financial Officer's Financial Review, together with further detail given in the notes to the consolidated financial statements.

The Directors confirm that they have a reasonable expectation that the AA has adequate resources to continue in operational existence for the foreseeable future, and accordingly they have adopted the going concern basis in preparing the financial statements for the year ended 31 January 2019.

The Code requires the Directors to assess and report on the prospects of the Group over a longer period. Our viability statement is set out on page 32.

Cautionary statement

This Annual Report contains forward-looking statements. These forward-looking statements are not guarantees of future performance, rather they are based on current views and assumptions as at the date of this Annual Report. These assumptions are made in good faith based on the information available at the time of the approval of this report. These statements should be treated with caution due to the inherent risks and uncertainties underlying any such forward-looking statements, and the Board has no obligation to update these statements.

Employment

The AA is an equal opportunities employer and has established best practice procedure, from recruitment and selection, through training and development, performance reviews and promotion to retirement. We promote an environment free from discrimination, harassment and victimisation, where everyone will receive equal treatment regardless of gender, colour, ethnic or national origin, disability, age, marital status, sexual orientation or religion.

Political donations

No political donations were made during the year ended 31 January 2019 (2018: £nil). The AA has a policy of not making donations to political organisations or independent election candidates or incurring political expenditure anywhere in the world as defined by relevant legislation.

Market Abuse Regulation

The Company keeps under review its share dealing processes (including those relating to persons discharging managerial responsibilities) and its share dealing policy, and provides mandatory training to certain relevant employees.

Suppliers' payment policy

It is the Company's policy to develop and maintain key commercial relationships with its suppliers and to obtain mutually agreeable payment terms. For the half year period ended 31 January 2019, the average time taken to pay invoices was seven days. Further information can be obtained from the Government's payment practice reporting portal.

Disclosures required under Listing Rule 9.8.4

In accordance with Listing Rule 9.8.4(12) and Listing Rule 9.8.4(13), we note that the Trustees of the AA plc 2015 Employee Benefit Trust (EBT) have waived their right to receive dividends on the ordinary shares comprised in the EBT, being 4,111,423 ordinary shares as at 31 January 2019, under the terms of the Trust Deed.

There are no further disclosures required to be made under Listing Rule 9.8.4.

2019 Annual General Meeting

The Company's AGM will be held at the offices of Freshfields Bruckhaus Deringer LLP, 65 Fleet Street, EC4Y 1HT on Wednesday 5 June 2019.

The Notice convening the 2019 AGM is contained in a circular sent to shareholders. Full details of all resolutions to be proposed are provided in this circular. The Directors consider that all of the resolutions set out are in the best interests of the Company and its shareholders as a whole. The Directors will be voting in favour of them in respect of their own holdings and unanimously recommend that shareholders vote in favour of each of them.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditors

At the 2018 AGM, shareholders approved the appointment of PwC as the new auditor of the Company from the 2019 financial year, with the first reporting for the six months to 31 July 2018. The Board and Audit Committee are satisfied that PwC is independent and there are adequate safeguards in place to ensure its objectivity.

Disclosure of information to the auditor

So far as the Directors are aware, there is no relevant audit information that has not been brought to the attention of the Company's auditor during the audit process.

Each of the Directors at the date of this Annual Report confirms that:

- (a) so far as the Director is aware, there is no relevant audit information of which the Company is unaware; and
- (b) the Director has taken all reasonable steps to make himself or herself aware of any relevant audit information and to establish that such information was provided to the auditor.

This confirmation is given and should be interpreted in accordance with Section 418 of the Act.

By order of the Board

Nadia Hoosen
Company Secretary

2 April 2019

Directors' responsibility statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. 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 (IFRS) as adopted by the EU and the Company financial statements in accordance with Financial Reporting Standard (FRS) 101. 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 the Company and of the profit or loss of the Group for that period.

In preparing these financial statements, the Directors are required to:

- > select suitable accounting policies and then apply them consistently
- > make judgements and accounting estimates that are reasonable and prudent
- > state whether applicable IFRS, as adopted by the EU, have been followed, subject to any material departures disclosed and explained in the financial statements
- > prepare the Group's and Company's financial statements on a going concern basis, unless it is inappropriate to do so

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the AA and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. The Directors are also responsible for safeguarding the assets of the AA and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Responsibility statement of the Directors in respect of the Annual Report and financial statements

Each of the Directors as at the date of the Annual Report (as noted on pages 54 and 55) confirm that to the best of their knowledge:

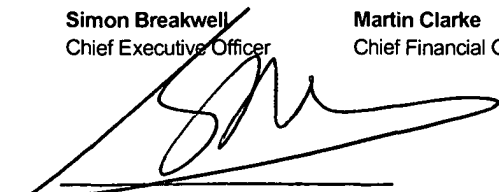
- > the Group and Company financial statements, which have been prepared in accordance with IFRS and FRS 101 respectively, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
- > the Strategic Report and Directors' Report from page 14 and page 85 respectively include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces
- > the Annual Report, taken as a whole, is fair, balanced and understandable and provides the necessary information for shareholders to assess the Group's performance, business model and strategy

A copy of the financial statements of the Group is placed on the Company's website at www.theaaplc.com. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Statement of Directors' Responsibilities was approved by the Board of Directors on 2 April 2019 and signed on its behalf by:

Simon Breakwell
Chief Executive Officer

Martin Clarke
Chief Financial Officer


SIMON BREAKWELL

Financial Statements

for the year ended 31 January 2019

Independent auditors' report to the members of AA plc

Report on the audit of the financial statements

Opinion

In our opinion:

- > AA plc'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 2019 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 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts ("Annual Report"), which comprise: the Consolidated and Company statements of financial position as at 31 January 2019; 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.

Our opinion is consistent with our reporting to the Audit Committee.

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, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other than those disclosed in note 31 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 February 2018 to 31 January 2019.

Our audit approach

Context

In planning for our first-year audit of AA plc, we met with the Audit Committee and members of management across the business, to discuss and understand significant changes during the year, and to understand their perspectives on associated business risks. We used this insight, in addition to our assessment of the previous auditor's approach, when forming our own views regarding the business, as part of developing our audit plan and when scoping and performing our audit procedures.

Overview

Materiality

- > Overall Group materiality: £8.4m, based on approximately 2.5% of Trading EBITDA.
- > Overall Company materiality: £4.0m, based on 1% of total assets but, for the purposes of the audit of the Group financial statements, we limited the Company materiality to £4.0m.

Audit scope

- > We conducted audit testing over seven components.
- > Four components were subject to an audit of their complete financial information.
- > Specific audit procedures were performed on certain balances and transactions in respect of a further three components.
- > We obtained coverage of 91% of revenue.

Key audit matters

The areas of focus were:

- > Revenue recognition, focused on the accuracy of revenue and deferred revenue recognised in respect of the personal roadside business (Group).
- > Valuation of post-retirement benefit obligations (Group).
- > Valuation of insurance technical provisions (Group).
- > Capitalisation of software development costs (Group).
- > Classification and disclosure of items as exceptional (Group).
- > Goodwill impairment assessment (Group).

- > Investment in subsidiaries impairment assessment (Company).

The scope of our audit

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

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of regulatory requirements and unethical and prohibited business practices, and we considered the extent to which non-compliance might have a material effect on the financial statements. In particular we considered the Group's compliance with Financial Conduct Authority ('FCA') regulations. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006, the Listing Rules and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue and management bias in accounting estimates. Audit procedures performed by the Group engagement team included:

- > Discussion with management, internal audit, internal compliance, internal legal counsel and enquiries of the Group's legal advisors, including consideration of known or suspected instances of non-compliance with laws and regulations, and fraud;
- > Reviewing correspondence between the Group and the FCA in relation to compliance with laws and regulations, and considering the matters identified in light of our understanding of the sector.
- > Challenging assumptions and judgements made by management in their significant accounting estimates and judgements, in particular in relation to the valuation of post-retirement benefit obligations and general insurance claims liabilities, and the investment in subsidiaries and goodwill impairment assessments performed;
- > Identifying and testing journal entries that increase revenue, in particular journal entries posted with unusual account combinations or posted by members of senior management with a financial reporting oversight role;
- > Incorporating elements of unpredictability into the audit procedures performed; and
- > Reviewing the disclosures in the Annual Report and financial statements against the specific legal requirements and involving technical experts to help us assess the compliance of disclosures against relevant legislation, for example within the Directors' Remuneration Report and the Governance Report.

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Revenue recognition, focused on the accuracy of revenue and deferred revenue recognised in respect of the personal roadside business (Group) Refer to page 70 in the Audit Committee report, Note 1.3(m) to the financial statements for the Directors' disclosures of the related accounting policies, judgements and estimates, and Note 2. The basis of recognising revenue differs between the various products and services provided by the Group, as well as the financial reporting standard applicable (IFRS 15 and IFRS 4). The accuracy of revenue recognised is a risk specific to the personal roadside business because the Directors' have previously identified issues with the way in which the underlying policy management system in this area of the business generates information used to prepare accounting entries for recognising revenue in the appropriate periods, and related deferred revenue balances. The Directors' have implemented additional procedures to ensure the accurate recording of such revenue. As a result, we consider that there is an increased risk of error in this area.	We assessed whether the Group's accounting policies in respect of revenue recognition appropriately reflect the requirements of IFRS 15 and IFRS 4. We evaluated the relevant IT systems and related internal controls; however we concluded that we would not rely on the controls over financial reporting and we have performed substantive procedures in this area. For a sample of personal roadside business contracts, we performed detailed testing of revenue transactions including agreeing to the underlying contracts, recalculating the revenue and deferred revenue recognised based on transactional data and contractual terms, and agreement to cash receipt. We inspected a sample of journal entries for any evidence of management override and obtained support for individually unusual and/or material revenue journals. We found no material misstatements from our testing.

Valuation of post-retirement benefit obligations (Group)

Refer to page 70 in the Audit Committee report, Note 1.3(l) to the financial statements for the Directors' disclosures of the related accounting policies, judgements and estimates, and Note 25.

The Group operates three defined benefit pension schemes, the most significant of which is the AA UK Pension Scheme (AAUK), with a total net defined benefit pension deficit of £218m, comprising gross assets of £2,286m and gross liabilities of £2,504m.

Valuation of the liabilities requires significant levels of judgement and technical expertise in choosing the appropriate assumptions to measure it. Changes in key assumptions (including discount rate, mortality, inflation and pension increases) can have a material impact on the calculation of the liabilities either individually or in combination. The Directors use independent actuaries to prepare the year end valuation under International Accounting Standard 19, 'Employee benefits' ('IAS 19').

Valuation of the scheme assets requires judgement, due to the nature of certain complex and illiquid assets held, for which there are no quoted prices available. Prices are obtained directly from the relevant investment managers who apply judgement in valuing those assets.

We focused on the reasonableness of the assumptions used in the calculation of the AAUK defined benefit liability, the valuation of assets held by the AAUK scheme and the disclosure of post-retirement benefit scheme obligations.

We involved our specialists in our assessment of the reasonableness of actuarial assumptions and the overall pension liability calculations by comparing the key assumptions, including the discount rate and inflation rate, mortality and pension increases, to benchmark ranges, performing sensitivity analysis, checking whether methods have been consistently applied and assessing the impact of the assumptions in combination with one another. We agreed that the judgements taken by the Directors were reasonable.

We also involved our specialists in our assessment of the valuation of the one-off costs of £22m incurred as a result of the Guaranteed Minimum Pension ("GMP") equalisation adjustment recognised in the year.

We obtained external confirmations to test the existence of pension assets, and performed testing over the valuation of those assets at 31 January 2019. For quoted assets, we confirmed the valuation to market data at the year end date. For the complex and illiquid assets, we obtained and reviewed a sample of audited fund financial statements to assess whether the net asset value was appropriate.

We reviewed the disclosure of post-retirement scheme obligations against the requirements of IAS 19 and were satisfied with the nature and extent of the disclosures provided.

We found no material misstatements from our testing.

Valuation of insurance technical provisions (Group)

Refer to page 70 in the Audit Committee report and Note 22 to the financial statements.

The Group financial statements include liabilities for the estimated cost of settling general insurance claims. The insurance technical provisions contain both the outstanding claims provisions of £23m and the provisions for incurred but not reported claims of £7m.

The Directors focused on this area due to the significance of these liabilities to the Group's balance sheet and because of the inherent uncertainties present when estimating future claims development.

We focused, in particular, on:

- > The methodologies and assumptions used in estimating the outstanding claims provisions for general insurance products (mainly motor policies), in particular for those claims such as personal injury, which can take a long time to settle and where the amounts concerned can be large; and
- > Whether the Directors' provision for incurred but not reported claims has been prepared appropriately, including whether any trends in the underlying claims experience have been appropriately reflected.

Our work to address the valuation of the insurance technical provisions was supported by our internal non-life actuarial specialists.

We targeted the largest outstanding claims and evaluated the methodology and assumptions used by the Directors to estimate the most judgemental components of the claim. We obtained supporting documentation, such as medical reports, to support the most significant elements of the claim. We agreed that the judgements taken by the Directors were reasonable.

We have tested on a sample basis the underlying source data on which actuarial projections are based to supporting documentation. In order to assess the completeness of recorded claims, we performed a review of claims related complaints during the year to understand if there was any indication that claims were not being recorded onto the claims system.

We have performed independent actuarial projections of the reserve requirements as at 31 December 2018, rolling forward our work to the year-end. These projections have been carried out at varying degrees of granularity, including claim type and policy type projections, and have subsequently been aggregated in order to produce our independent view. We compared this to the insurance technical provisions booked to consider their appropriateness.

We considered the run-off of prior year liabilities, the sensitivity of the liabilities to alternative methods and assumptions and, where relevant, industry benchmarking. We also examined trends in ratios driven by internal or market level factors, including those between the initial case estimates and the final costs of settlement. We concluded that the year end insurance technical provisions are reasonable based on the independent projections performed and our assessment of the potential uncertainty present.

Capitalisation of software development costs (Group)

Refer to page 69 in the Audit Committee report, Note 1.3(e) to the financial statements for the Directors' disclosures of the related accounting policies, judgements and estimates, and Note 11.

The Group spends material amounts on developing technology solutions, some in support of its core business products and services, and some for specific customer contracts. This expenditure is capitalised when the development projects meet the criteria of International Accounting Standard 38, 'Intangible assets' ("IAS 38"). In the period, £69m was capitalised in respect of computer software, and there was a balance of assets under construction of £58m at 31 January 2019.

The Directors assess the appropriate capitalisation of assets and consider if any impairments are needed. An impairment charge of £5m was recorded in the year in relation to software no longer planned to be used.

We focused on this area because expenditure may be capitalised inappropriately, for example when there is insufficient evidence of the above criteria, and the intangible assets recognised may be impaired.

We assessed the Group's compliance with IAS 38 and whether amounts had been appropriately capitalised or expensed, and also evaluated the Directors' impairment assessment.

We obtained an understanding of the software under development through discussion with a number of the project teams. We checked a sample of the amounts capitalised to timesheet records (for internal costs) or other supporting documents. For a sample of projects we assessed the basis for capitalisation and confirmed the point at which assets were brought into use and amortisation commenced. We reviewed the useful economic lives of a sample of software development projects. Whilst there is some subjectivity over the timing of commencement of amortisation, we found no material exceptions and were satisfied that the useful economic lives are appropriate.

We considered indicators of potential impairment and, where an impairment was identified, tested the completeness of the identified costs to be written down.

Classification and disclosure of items as exceptional (Group)

Refer to page 69 in the Audit Committee report, Note 1.3(o) to the financial statements for the Directors' disclosures of the related accounting policies, judgements and estimates, and Note 5.

The Group has classified costs of £41m and a credit of £1m, resulting in a net charge of £40m, as "exceptional" in the Income Statement. Of the amounts charged, £7m relates to restructuring activities, and £22m relates to the accrual for GMP pension liabilities (see above).

We focused on this area as exceptional items are not specifically defined in International Financial Reporting Standards and, as such, the classification of such items can involve a degree of judgement and subjectivity.

We considered whether items classified as exceptional are consistent with the Group's accounting policy for such items and whether the amounts separately disclosed are consistent with the descriptions given.

There is a risk that inappropriate costs might be excluded from the underlying operating cost base and that the disclosures around the items excluded from adjusted performance measures might not be clear and transparent.

We selected a sample of restructuring costs and obtained evidence to support the amounts recognised and, for the majority of items, that they were incurred directly as a result of the Group's restructuring programmes.

For the other exceptional items we understood and tested on a sample basis the nature of the underlying costs; we considered whether their separate disclosure as such was consistent with the Group's policy in this area.

There are certain costs where the classification as exceptional is subjective due to the circumstances in which they have arisen. Based on the audit evidence obtained, we have been able to conclude that, although subjective, materially there are valid arguments for separate disclosure of these items.

We also considered the extent and clarity of the Group's disclosures around exceptional items and were satisfied the descriptions provided are consistent with the underlying items charged or credited.

Goodwill impairment assessment (Group)

Refer to page 69 in the Audit Committee report, Note 1.3(i) to the financial statements for the Directors' disclosures of the related accounting policies, judgements and estimates, and Note 11.

The goodwill balance of £1,170m is subject to an annual impairment review.

The Directors analyse discounted cash flows at the cash generating unit (CGU) level to calculate the value in use for each CGU. Cash flow forecasts are an area of particular focus given the judgements relating to future Trading EBITDA growth and discount rate assumptions.

No impairment charge has been recorded by the Directors against the goodwill balance in the current financial year.

The risk that we focused on in the audit is that the goodwill balance may have been impaired in value and this has not been recognised.

Whilst we focused on all goodwill amounts, we gave a specific focus to the accounting treatment of goodwill of £25m recognised in the prior year relating to the acquired Used Car Sites Limited (trading as 'AA Cars') given this was a recent (2018) acquisition and on Drivetechn, which showed, relatively, less headroom.

We checked the cash flow forecasts used by the Directors in the assessment of goodwill impairment were consistent with the approved three year plans for all CGUs. We evaluated the historical accuracy of the cash flow forecasts for the period post-acquisition in respect of AA Cars and for three years in respect of the other CGUs, including a comparison of the current year actual results with the FY19 figures included in the prior year forecast. For certain key assumptions which underpinned the forecast performance we corroborated these against contracts or other market data. We found that the forecasts have been completed on a basis consistent with prior years and were an appropriate basis upon which the Directors could base their conclusions.

For all CGUs, we tested the Directors' assumptions in the forecasts for:

- > Long term growth rates, by comparing them to historical results, and economic forecasts; and
- > The discount rate, by engaging our valuation experts to assess the cost of capital for the Company and comparable organisations.

We found the assumptions to be consistent and in line with our expectations based on industry benchmarks.

We obtained and understood the Directors' sensitivity calculations over all their CGUs. We determined that the calculations were most sensitive to assumptions for growth rates and discount rates. For all CGUs, we calculated the degree to which these assumptions would need to move before an impairment was triggered. We discussed the likelihood of such a movement with the Directors and agreed with their conclusion that there was no reasonable possible change that would give rise to an impairment.

Investment in subsidiaries impairment assessment (Company)

Refer to Notes 2 and 8 to the Company financial statements

The Company holds investments in subsidiaries of £822m. Whilst these eliminate on consolidation in the Group financial statements, they are recorded in the Company financial statements. The Directors focused on the carrying value of these investments in light of the Group market capitalisation being lower than the investment carrying value at the balance sheet date. The Directors concluded that no impairment was required.

With the support of our valuation experts we evaluated the Directors' impairment assessment of the investment in subsidiaries carrying value by agreeing amounts to supporting documentation and checking calculations. This leveraged the Directors' calculations for the Group goodwill impairment assessment referred to above as well as corporate finance support from an external advisor. Based on our testing, we did not identify any material misstatements. We also evaluated the related disclosures and were satisfied they were appropriate.

How we tailored the audit scope

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

AA plc has two operating segments. Within these segments there are around 45 reporting units, of which the following are considered financially significant and were subject to an audit of their complete financial information, due to their size: AA plc Company, AA Developments Limited, Automobile Association Insurance Services Limited and AA Bond Co Limited. In addition, three legal entities were in scope for specific audit procedures, being AA Corporation Limited, AA Underwriting Insurance Company Limited and AA Media Limited. These components were selected based on the contribution of each to specific financial statement line items, including intangible assets, insurance reserves and inventory, respectively. These, together with the procedures performed at the Group level, including auditing the consolidation and financial statement disclosures, taxation, pension scheme balances, insurance technical provisions and head office costs, gave us the evidence we needed for our opinion on the financial statements as a whole.

The Company is principally a holding company and there are no branches or other locations to be considered when scoping the audit.

Materiality

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

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

	Group financial statements	Company financial statements
Overall materiality	£8.4m	£4.0m
How we determined it	Approximately 2.5% of Trading EBITDA	1% of total assets but, for the purposes of the audit of the Group financial statements, we limited the Company materiality to £4.0m
Rationale for benchmark applied	Based on the benchmarks used in the annual report, Trading EBITDA is the primary metric used by the Directors and investors in assessing the performance of the business and a key metric for measuring covenant compliance with the Group's significant debt obligations	We believe that total assets is the appropriate measure as the Company is a non-profit oriented entity. In the current year, overall materiality has been reduced to £4.0m to ensure the Company did not have a higher materiality than the overall Group materiality allocation

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £2m and £7.6m.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.4m (Group audit) and £0.4m (Company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. As 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. 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 Group's trade, customers, suppliers and the wider economy.
We are required to report if the Directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

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, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

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. (CA06)

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. (CA06)

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- > The Directors' confirmation on page 67 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- > The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- > The Directors' explanation on page 32 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the Code); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (*Listing Rules*)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- > The statement given by the Directors, on page 88, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- > The section of the Annual Report on pages 68 to 71 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- > The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' Responsibility Statement set out on page 88, 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/auditors responsibilities. 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

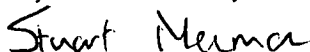
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- > 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 and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 7 June 2018 to audit the financial statements for the year ended 31 January 2019 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.



Stuart Newman

For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

3 April 2019

Consolidated income statement

for the year ended 31 January

	Note	2019 £m	2018 £m
Revenue	2	979	960
Cost of sales		(399)	(360)
Gross profit		580	600
Administrative and marketing expenses		(361)	(292)
Share of loss of joint ventures and associates, net of tax		–	(1)
Operating profit	4	219	307
Finance costs	6	(167)	(167)
Finance income	7	1	1
Profit before tax		53	141
Tax expense	9	(11)	(30)
Profit for the year		42	111

	Note	2019 pence	2018 pence
Earnings per share from profit for the year			
Basic from total operations	10	6.9	18.2
Diluted from total operations	10	6.9	18.2

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

Consolidated statement of comprehensive income

for the year ended 31 January

	Note	2019 £m	2018 £m
Profit for the year		42	111
Other comprehensive income on items that may be reclassified to the income statement in subsequent years			
Exchange differences on translation of foreign operations		–	(1)
Effective portion of changes in fair value of cash flow hedges		(6)	8
Tax effect	9	1	(3)
		(5)	4
Other comprehensive income on items that will not be reclassified to the income statement in subsequent years			
Remeasurement gains on defined benefit schemes	25	30	120
Tax effect	9	(5)	(21)
		25	99
Total other comprehensive income		20	103
Total comprehensive income for the year		62	214

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

Consolidated statement of financial position

as at 31 January

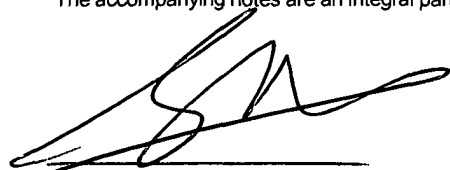
	Note	2019 £m	2018 £m
Non-current assets			
Goodwill and other intangible assets	11	1,331	1,300
Property, plant and equipment	13	123	127
Investments in joint ventures and associates	14	5	8
Other receivables	16	–	3
Deferred tax assets	9	22	31
		1,481	1,469
Current assets			
Inventories	15	4	7
Trade and other receivables	16	223	201
Cash and cash equivalents	17	116	150
		343	358
Assets classified as held for sale	36	6	–
Total assets		1,830	1,827
Current liabilities			
Trade and other payables	18	(511)	(528)
Current tax payable		(3)	(10)
Provisions	21	(3)	(13)
		(517)	(551)
Non-current liabilities			
Borrowings and loans	19	(2,724)	(2,736)
Finance lease obligations	29	(12)	(16)
Defined benefit pension scheme liabilities	25	(218)	(240)
Provisions	21	(4)	(4)
Deferred consideration	18	(10)	(11)
Insurance technical provisions	22	(30)	(24)
		(2,998)	(3,031)
Liabilities classified as held for sale	36	(5)	–
Total liabilities		(3,520)	(3,582)
Net liabilities		(1,690)	(1,755)
Equity			
Share capital	23	1	1
Share premium	24	408	406
Own shares	24	(31)	(29)
Cash flow hedge reserve	24	–	5
Retained earnings	24	(2,068)	(2,138)
Total equity attributable to equity holders of the parent		(1,690)	(1,755)

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

Simon Breakwell
Chief Executive Officer

Martin Clarke
Chief Financial Officer

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



SIMON BREAKWELL

Consolidated statement of changes in equity

for the year ended 31 January

	Attributable to the equity holders of the parent						
	Share capital £m	Share premium £m	Own shares £m	Currency translation reserve £m	Cash flow hedge reserve £m	Retained earnings £m	Total £m
At 1 February 2017	1	403	(26)	1	2	(2,294)	(1,913)
Profit for the year	–	–	–	–	–	111	111
Other comprehensive income	–	–	–	(1)	5	99	103
Total comprehensive income	–	–	–	(1)	5	210	214
Other reserves	–	–	–	–	(2)	2	–
Dividends	–	–	–	–	–	(56)	(56)
Issue of share capital	–	3	–	–	–	–	3
Purchase of own shares	–	–	(3)	–	–	–	(3)
At 31 January 2018	1	406	(29)	–	5	(2,138)	(1,755)
Profit for the year	–	–	–	–	–	42	42
Other comprehensive income	–	–	–	–	(5)	25	20
Total comprehensive income	–	–	–	–	(5)	67	62
Dividends	–	–	–	–	–	(12)	(12)
Issue of share capital	–	2	–	–	–	–	2
Purchase of own shares	–	–	(2)	–	–	–	(2)
IFRS 9 conversion (see note 35)	–	–	–	–	–	13	13
IFRS 9 conversion deferred tax impact (see note 35)	–	–	–	–	–	(2)	(2)
Share-based payments (see note 34)	–	–	–	–	–	4	4
At 31 January 2019	1	408	(31)	–	–	(2,068)	(1,690)

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

Consolidated statement of cash flows

for the year ended 31 January

	Note	2019 £m	2018 £m
Profit before tax		53	141
Amortisation, depreciation and impairment	11,13	78	70
Net finance costs	6,7	166	166
Difference between pension charge and cash contributions		2	(44)
Other adjustments to profit before tax		3	23
Working capital:			
Increase in trade and other receivables		(23)	(3)
Decrease in trade and other payables		(3)	(8)
Decrease in provisions		(3)	(6)
Total working capital adjustments		(29)	(17)
Net cash flows from operating activities before tax		273	339
Tax paid		(15)	(23)
Net cash flows from operating activities		258	316
Investing activities			
Capital expenditure		(82)	(63)
Proceeds from sale of fixed assets		13	18
Payment for acquisition of subsidiary, net of cash acquired		(13)	–
Proceeds from sale of joint venture		2	–
Dividends from joint ventures and associates		1	1
Interest received		1	1
Net cash flows used in investing activities		(78)	(43)
Financing activities			
Proceeds from borrowings		565	250
Issue costs on borrowings		(10)	(7)
Debt repayment premium and penalties		(17)	(11)
Settlement of interest rate hedges		(7)	–
Repayment of borrowings		(565)	(328)
Refinancing transactions		(34)	(96)
Interest paid on borrowings		(129)	(136)
Payment of finance lease capital		(35)	(41)
Payment of finance lease interest		(4)	(5)
Dividends paid		(12)	(56)
Net cash flows used in financing activities		(214)	(334)
Net decrease in cash and cash equivalents		(34)	(61)
Cash and cash equivalents at 1 February		150	211
Cash and cash equivalents at 31 January	17	116	150

The cash flows from operating activities are stated net of cash outflows relating to exceptional items of £23m (2018: £29m). This relates to the cost of business and IT rationalisation and transformation of £16m (2018: £19m), conduct and regulatory costs of £2m (2018: £nil), legal disputes of £1m (2018: £nil), corporate transactions of £1m (2018: £nil), a net cash outflow from onerous property lease provisions in respect of vacant properties of £2m (2018: £2m) and costs of reimbursing customers who bought duplicate breakdown cover of £1m (2018: £8m).

Other adjustments to profit before tax inflow of £3m (2018: inflow of £23m) include impairment of goodwill £nil (2018: £27m), profit on sale of the Home Services business of £nil (2018: £6m), share of loss from joint ventures and associates of £nil (2018: £1m), share-based payment charge of £5m (2018: £7m), profit on sale of fixed assets of £1m (2018 profit: £1m), credit for reversal of MVP share-based payment charge (see note 34) of £nil (2018: £7m), credit on remeasurement of contingent consideration of £1m (2018: £nil), loss on disposal of VVCR of £nil (2018: £1m) and impairment of investment in joint ventures of £nil (2018: £1m).

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

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 2019 comprise the financial statements of AA plc ('the Company') and its subsidiaries (together referred to as 'the Group'). AA plc is a public limited company incorporated and domiciled in England and Wales.

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, International Financial Reporting Interpretation Council (IFRIC) 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 (see also Audit Committee Report on page 69)

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 no 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 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.

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.

The results of overseas operations are translated into sterling at average rates of exchange for the period. Exchange differences arising on the retranslation of the opening net assets of overseas operations are transferred to the Group's cumulative translation reserve in equity through other comprehensive income.

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 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.

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
IT systems (hardware)	3 – 5 years
Plant, vehicles and other equipment	3 – 10 years

Assets held under finance leases are depreciated on a straight-line basis over the lease term.

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.

Equity instruments (share capital issued by the Group)

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all its liabilities. Equity instruments are recognised at the fair value of proceeds received less direct issue costs.

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.

j) Leases

Finance leases transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are currently classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is shown as a financial liability. Lease payments are apportioned between finance charges and the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement.

Rentals payable and receivable under operating leases are charged, or credited, to the income statement on a straight-line basis over the term of the relevant lease. Any incentives to enter into an operating lease are recognised evenly over the lease term.

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 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.

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 conditions are settled over time. The unrecognised element of subscriptions and premiums receivable, relating to future periods, is held within liabilities as deferred income and provision for unearned premium.

Commission income from insurers external to the Group is recognised at the commencement of the period of risk on a point in time basis. Commission income for policies underwritten by the Group is deferred and recognised over the period of risk.

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.

The revenue recognition accounting policy was reviewed as part of the transition from IAS 18 to IFRS 15 and the Group determined that no change was needed.

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 assistance 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, broker acquisition costs are deferred. The Group also has insurance risk within the insurance underwriting segment on insurance products underwritten by the Group.

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.

The provision for outstanding claims relating to products with insurance risk within the insurance underwriting segment is set on an individual claim basis and is based on the ultimate cost of all claims notified but not settled, less amounts already paid by the reporting date, together with a provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported ('IBNR') at the statement of financial position date, which is set using statistical methods. Both outstanding claims and IBNR are not discounted for the time value of money.

The amount of any anticipated reinsurance, salvage or subrogation recoveries is separately identified and reported within trade and other receivables and insurance contract liabilities respectively. Differences between the provisions at the reporting date and settlements and provisions in the following year are recognised in the income statement as they arise.

Reinsurance

The Group undertakes a programme of reinsurance in respect of the policies which it underwrites. Outward reinsurance premiums are accounted for in the same accounting period as the related inward insurance premiums and are included as a deduction from earned premium, and therefore as a reduction in revenue. The amount of any anticipated reinsurance recoveries is treated as a reduction in claims costs.

The Group has also entered into coinsurance arrangements in respect of certain policies that it underwrites. Premiums and claims in respect of coinsured policies are shown net of the coinsurer's share.

o) Exceptional items and adjusted earnings per share

Exceptional 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.

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

p) Finance income and costs

Finance costs comprise interest payable, finance charges on finance 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.

q) 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.

r) 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.

s) Share-based payments

The Group operates a number of equity-settled and cash-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.

Share-based payment transactions in which the Group receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Group's equity instruments are accounted for as cash-settled share-based payments. The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each statement of financial position date and at settlement date. Any changes in the fair value of the liability are recognised as an employee cost in the income statement.

t) 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.

u) 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:

Contingent consideration (see note 12)

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.

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 26). Management has prepared discounted cash flows based on the latest strategic plan.

Share-based payments

The Group has issued a number of share-based payment awards to employees during the year 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.

Insurance technical provisions

The Group's insurance technical provisions are an estimate of the expected ultimate cost of claims as at the statement of financial position date and the cost of claims incurred but not yet reported to the Group. The estimation of these claims is based on historical experience projected forward using actuarial projection methodologies which incorporate various assumptions. It can take a significant period of time before the ultimate cost of claims can be established with certainty, and the final outcome may be better or worse than that provided.

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.

2 Segmental information and revenue disaggregation

In the prior year, the Group determined that it has two key segments – Roadside and Insurance. Roadside incorporates the previous Roadside Assistance and Driving Services segments and Insurance combines Insurance Services and Insurance Underwriting. Head Office costs have been allocated to these two key segments as these costs principally directly support the operations of these segments. To assist readers of the accounts both the current and previous segments have been presented below.

The two reportable operating segments are therefore as follows:

- > **Roadside:** This segment is the largest part of the AA business. The AA provides a nationwide service, sending patrols out to members stranded at the side of the road, repairing their vehicles where possible and getting them back on their way quickly and safely. In addition, this segment includes the Group's publishing and hotels business, the AA and BSM driving schools and DriveTech which provides driver training and educative programmes.
- > **Insurance:** This segment includes the insurance brokerage activities of the AA, primarily in arranging motor and home insurance for customers, its home emergency activities and its intermediary financial services business. This segment also includes the insurance underwriting and reinsurance activities of the AA.

	2019 £m	2018 £m
Revenue		
Roadside	841	814
Insurance	138	145
Trading Revenue	979	959
Exceptional revenue provision (see note 21)	–	1
Group Revenue	979	960
Trading EBITDA		
Roadside	283	320
Insurance	58	71
Trading EBITDA	341	391
Share-based payments (see note 34)	(5)	(7)
Contingent consideration remeasurement gain	1	–
Pension service charge adjustment	(5)	(10)
Amortisation and depreciation	(73)	(70)
Operating profit before exceptional items	259	304
Exceptional operating items (see note 5)	(40)	3
Operating profit	219	307
Net finance costs (see notes 6 and 7)	(166)	(166)
Profit before tax	53	141

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

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

Exceptional items, net finance costs and tax expense are not allocated to individual segments as they are managed on a group basis.

Segmental information is not presented for items in the statement of financial position as management does not view this information on a segmental basis.

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

	2019 £m	2018 £m
Revenue		
Roadside Assistance	778	747
Insurance Services	119	133
Driving Services	63	67
Insurance Underwriting	19	12
Trading Revenue	979	959
Exceptional revenue provision (see note 21)	–	1
Group Revenue	979	960
Trading EBITDA		
Roadside Assistance	322	345
Insurance Services	62	79
Driving Services	17	22
Insurance Underwriting	6	1
Head Office costs	(66)	(56)
Trading EBITDA	341	391

Reconciliation of new segmental analysis

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

Operating profit before exceptional items

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

Disaggregation of revenue:

	2019 £m	2018 £m
Roadside:		
Consumer (B2C)		
Insured contracts	482	472
Pay for use contracts ¹	48	46
Business Services (B2B)		
Insured contracts	36	37
Pay for use contracts ¹	178	164
Roadside other	97	95
Total Roadside	841	814
Insurance:		
Brokering activities	119	133
Insurance underwriting	19	12
Total Insurance	138	145
Trading Revenue	979	959

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

Roadside B2C and B2B mostly consists of revenue from roadside membership subscriptions. The majority of brokering activities revenue relates to commission income from insurers external to the group, whereas insurance underwriting largely consists of premiums receivable on underwritten insurance products. For further detail on the Group's revenue streams see the 'Our Performance' section of the annual report on pages 26 to 27, and the 'Risk Management' section of the annual report on pages 33 to 35 for the different risks associated with each.

3 Adjusted performance measures

These accounts report results and performance both on a statutory and non-GAAP (non-statutory) basis. The Group's adjusted performance measures are non-GAAP (non-statutory) financial measures and are included in these accounts as they are key financial measures used by management to evaluate performance of business segments. The measures enable investors to more easily and consistently track the underlying operational performance of the Group and its business segments. Some of the measures are also required under our debt documents for debt covenant calculations.

Trading Revenue is revenue on a continuing basis adjusted for exceptional items. Trading EBITDA is profit after tax on a continuing basis as reported, adjusted for depreciation, amortisation, exceptional operating items, share-based payments, pension service charge adjustments, net finance costs, contingent consideration remeasurement movements and tax expense.

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

Reconciliation of Trading EBITDA to operating profit

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

	Note	For the year ended 31 January	
		2019 £m	2018 £m
Trading EBITDA	2	341	391
Share-based payments	34	(5)	(7)
Contingent consideration remeasurement gain	2	1	–
Pension service charge adjustment	2	(5)	(10)
Amortisation and depreciation	11,13	(73)	(70)
Exceptional operating items	5	(40)	3
Operating profit	4	219	307

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

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

Adjusted earnings per share

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

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

	2019	2018
Profit after tax as reported (£m)	42	111
Adjusted for:		
Exceptional operating items (see note 5) (£m)	40	(3)
Share-based payments (see note 34) (£m)	5	7
Contingent consideration remeasurement gain (see note 2) (£m)	(1)	–
Pension service charge adjustment (see note 25) (£m)	5	10
Exceptional finance costs (see note 6) (£m)	13	9
Tax expense (see note 9) (£m)	11	30
Adjusted profit before tax (£m)	115	164
Tax at the effective rate of 20.8% (2018: 19.1%) (£m)	(24)	(31)
Adjusted profit after tax (£m)	91	133
Weighted average number of shares outstanding (millions)	612	610
Adjusted basic earnings per share (pence)	14.9	21.8
Weighted average number of diluted ordinary shares (millions)	612	610
Adjusted diluted earnings per share (pence)	14.9	21.8

4 Operating profit

Operating profit is stated after charging:

	2019 £m	2018 £m
Amortisation of owned intangible assets (see note 11)	33	31
Impairment of software (see note 11)	5	–
Depreciation of owned tangible fixed assets (see note 13)	15	14
Depreciation of leased tangible fixed assets (see note 13)	25	25
Operating lease rentals payable – land and buildings	4	3

5 Exceptional operating items

	2019 £m	2018 £m
Pension past service cost/(credit) (see note 25)	22	(34)
Impairment of investment in joint venture (see note 14)	–	1
Duplicate breakdown cover (see note 21)	–	(1)
Impairment of goodwill (see note 26)	–	27
Impairment of intangible fixed assets (see note 11)	5	–
Other exceptional operating items	13	4
Total exceptional items	40	(3)

During the year the Group recognised a one-off pension past service cost of £22m as a result of Guaranteed Minimum Pension (GMP) equalisation (see note 25).

In the prior year, the Group recognised a one-off pension past service credit of £34m as a result of the benefit changes implemented (see note 25). This comprised a £12m gain from closure of the final salary sections of the AAUK scheme, due to the assumed deferred pension revaluation being lower than the assumed pensionable earnings increases, and a £22m gain from the change in pension indexation in the CARE section from RPI-based to CPI-based, which is expected to be lower in the long term.

In the current year, other exceptional operating items comprised Business and IT rationalisation and transformation costs of £7m, conduct and regulatory costs of £2m, legal disputes costs of £1m, corporate transaction costs of £1m, additional onerous property costs of £1m, gain on disposal of fixed assets of £1m and customer compensation costs of £2m.

Prior year exceptional revenue included £1m for duplicate breakdown cover provision release, see note 21 for further information.

In the prior year, other exceptional operating costs included £24m relating to business transformation costs, £1m gain on disposal of fixed assets, £2m for IT systems transformation, £9m improvement in onerous properties position, £6m gain on the disposal of the home services book, £7m credit for the reversal of share-based payments charge relating to the former executive chairman (see note 34) and £1m relating to the loss on disposal of the VVCR entities.

Costs from the current year refinancing in July 2018 and the prior period refinancing in July 2017 were directly attributable to the issue and repayment of loan notes and have therefore been included either in finance costs or in borrowings as debt issue fees (see notes 6 and 20).

6 Finance costs

	2019 £m	2018 £m
Interest on external borrowings	127	132
Finance charges payable under finance leases	4	6
Total ongoing cash finance costs	131	138
Ongoing amortisation of debt issue fees	15	10
Contingent consideration movements	2	–
Net finance expense on defined benefit pension schemes	6	10
Total ongoing non-cash finance costs	23	20
Debt repayment penalties	15	10
Transfer from cash flow hedge reserve for extinguishment of cash flow hedge	(8)	(2)
Debt issue fees immediately written off following repayment of borrowings (see note 20)	6	1
Exceptional finance costs	13	9
Total finance costs	167	167

Within interest on external borrowings is £3m (2018: £7m) of interest charged on the Senior Term Facility and £4m (2018: £9m) charged in relation to the interest rate swaps used to hedge the variable element of the Senior Term Facility (see note 20).

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

During the year, £6m (2018: £1m) of amortised debt issue fees were immediately written off following the refinancing.

During the year, the Group also repaid £250m (2018: £98m) of the Senior Term Facility, and transferred the £8m gain (2018: £2m gain) on the fair value of the cash flow hedges related to the repayment to the income statement.

During the prior year the Group repaid Class A1 notes of £175m and Class A4 notes of £55m. As a result, the Group incurred an early repayment penalty of £10m.

7 Finance income

	2019 £m	2018 £m
Interest receivable	1	1
Total finance income	1	1

8 Employee costs

	2019 £m	2018 £m
Wages and salaries	249	245
Social security costs	27	26
Other pension costs	30	33
Share-based payments expense (see note 34)	5	7
	311	311

The pension past service cost of £22m (2018: credit of £34m) is excluded from retirement benefit costs above (see note 25).

Disclosure of the Directors emoluments can be found in the Remuneration Report on pages 72 to 84 of the annual report.

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

	2019	2018
Operational	6,214	6,028
Management and administration	1,273	1,193
	7,487	7,221

9 Tax

The major components of the income tax expense are:

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

	2019 £m	2018 £m
Consolidated statement of comprehensive income		
Tax on the effective portion of changes in fair value of cash flow hedges	(1)	3
Tax on remeasurements of defined benefit pension liability	5	21
Income tax charged directly to other comprehensive income	4	24

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

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

	2019 £m	2018 £m
Profit before tax	53	141
Tax at rate of 19% (2018: 19.1%)	10	27
Adjustments relating to prior years	(1)	(1)
Rate change adjustment on temporary differences	–	(1)
Expenses not deductible for tax purposes:		
> Share-based payments	1	(1)
> Impairment of goodwill	–	5
> Other non-deductible expenses/non-taxed income	1	1
Income tax expense reported in the consolidated income statement at effective rate of 20.8% (2018: 19.1%)	11	30

The effective rate disclosed is adjusted for non-recurring or exceptional material items. In the current year, there were no such items. In the prior year, adjusting items included the rate change adjustment that has arisen as a result of the future reduction in corporation tax rates affecting the carrying value of the deferred tax balances, the impact of share-based payments and the impairment of goodwill.

Deferred tax by type of temporary difference

	Consolidated statement of financial position		Consolidated income statement	
	2019 £m	2018 £m	2019 £m	2018 £m
Accelerated depreciation for tax purposes	9	8	(1)	–
Revaluations of land and buildings to fair value	(1)	(1)	–	–
Rollover relief	(2)	(2)	–	–
Pension	3	6	(2)	5
Revaluation of cashflow hedges	–	2	3	(1)
Short-term temporary differences	4	6	–	1
Losses available for offsetting against future taxable income	9	12	3	2
Deferred tax expense			3	7
Net deferred tax assets	22	31		

Reconciliation of net deferred tax assets

	2019 £m	2018 £m
At 1 February	31	62
Tax expense recognised in the income statement	(3)	(7)
Tax expense recognised in other comprehensive income	(4)	(24)
Deferred tax recognised directly in equity	(2)	–
At 31 January	22	31

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 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.

Deferred tax has been recognised at an overall rate of 17.2% at 31 January 2019 (2018: 17.3%). 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 £52m (deferred tax equivalent £9m) (2018: £66m tax losses, deferred tax equivalent £12m) 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.

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. The residual interest disallowance has not resulted in a material increase in the tax charge above.

10 Earnings per share

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

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

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

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

The Group has another class of potential dilutive ordinary shares relating to the MVP shares (see note 34). However, as at 31 January 2019, based on average market value of ordinary shares for the year, these are unlikely to vest and so were not dilutive.

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

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

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

	2019	2018
Profit after tax as reported (£m)	42	111
Adjusted for:		
Exceptional operating items (see note 5) (£m)	40	(3)
Share-based payment (see note 34) (£m)	5	7
Contingent consideration remeasurement gain (see note 2) (£m)	(1)	–
Pension service charge adjustment (see note 25) (£m)	5	10
Exceptional finance costs (see note 6) (£m)	13	9
Tax expense (see note 9) (£m)	11	30
Adjusted profit before tax (£m)	115	164
Tax at the effective rate of 20.8% (2018: 19.1%) (£m)	(24)	(31)
Adjusted profit after tax (£m)	91	133
Weighted average number of shares outstanding (millions)	612	610
Adjusted basic earnings per share (pence)	14.9	21.8
Weighted average number of diluted ordinary shares (millions)	612	610
Adjusted diluted earnings per share (pence)	14.9	21.8

11 Goodwill and other intangible assets

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

Within software, £58m (2018: £32m) relates to assets under construction which are not amortised.

Software additions comprise £11m (2018: £12m) in relation to internally developed assets and £58m (2018: £39m) in relation to separately acquired assets.

There were £nil goodwill additions in the year (2018: £25m additions relating to the acquisition of Used Car Sites Limited).

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

During the year, there was an impairment charge against software assets of £5m (2018: £nil). This related to the impairment of certain software assets as it was determined during the year that these particular assets would no longer be used.

During the prior year, there was an impairment charge against goodwill of £27m (see note 26).

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

12 Business combinations

Acquisitions during the year ended 31 January 2019

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

Acquisitions during the year ended 31 January 2018

On 1 October 2017, the Group assumed control of Used Car Sites Limited (trading as AA Cars), a used car sales platform for a provisional consideration of £26m. At the point of acquisition Used Car Sites Limited had receivables of £1.8m, cash of £1.8m and payables of £2.4m. Used Car Sites Limited made a profit before tax of £nil for the year to 30 September 2017 and a profit before tax of £1m for the period 1 October 2017 to 31 January 2018.

On 1 March 2018, the Group completed the purchase of the entire share capital of Used Car Sites Limited. A payment of £12m was made to the former owners and £3m was paid into an escrow account and was payable to the former owners subject to certain conditions being met. These transactions cleared the balance of deferred consideration due within 1 year. This transaction left a remaining balance of £11m deferred consideration due in more than one year which was calculated based on the probability-weighted payout approach. The range of potential contingent consideration was £nil-£21m which was factored into the assessment of goodwill arising on acquisition. No subsequent adjustments were made during the 2019 financial year to the goodwill arising on this acquisition.

13 Property, plant and equipment

	Freehold land & buildings £m	Long leasehold land & buildings £m	Vehicles £m	Plant & equipment £m	Total £m
Cost					
At 31 January 2017	24	7	98	90	219
Additions	–	–	40	14	54
Disposals	–	–	(34)	–	(34)
At 31 January 2018	24	7	104	104	239
Additions	–	5	34	7	46
Disposals	–	–	(25)	(25)	(50)
At 31 January 2019	24	12	113	86	235
Depreciation and impairment					
At 31 January 2017	7	3	26	52	88
Charge for the year	1	1	25	12	39
Disposals	–	–	(15)	–	(15)
At 31 January 2018	8	4	36	64	112
Charge for the year	–	–	26	14	40
Disposals	–	–	(15)	(25)	(40)
At 31 January 2019	8	4	47	53	112
Net book value					
At 31 January 2019	16	8	66	33	123
At 31 January 2018	16	3	68	40	127

The net book amount of vehicles includes £66m (2018: £68m) held under finance lease agreements. The accumulated depreciation on these assets is £45m (2018: £36m).

The net book amount of other assets includes £nil (2018: £nil) in respect of plant & equipment held under finance lease agreements. The accumulated depreciation on these assets is £8m (2018: £8m).

Within plant and equipment £4m (2018: £9m) and within long leasehold land and buildings £5m (2018: £nil) relates to assets under construction which are not depreciated.

14 Investments in joint ventures and associates

	2019			2018		
	Joint ventures £m	Associates £m	Total £m	Joint ventures £m	Associates £m	Total £m
At 1 February	4	4	8	6	4	10
Disposals	(2)	–	(2)	–	–	–
Share of loss	–	–	–	(1)	–	(1)
Dividend received	(1)	–	(1)	–	–	–
Impairment	–	–	–	(1)	–	(1)
At 31 January	1	4	5	4	4	8

The joint ventures of the Group 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
Motoriety UK Limited (50% interest held)	England	Roadside services

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.

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

During the 2018 financial year, the Group's investment in TVS Auto Assist (India) Limited was impaired by £1m. The investment was subsequently disposed of on 30 March 2018.

15 Inventories

	2019 £m	2018 £m
Finished goods	4	7
	4	7

16 Trade and other receivables

	2019 £m	2018 £m
Current		
Trade receivables	142	137
Deferred consideration	3	3
Prepayments	18	15
Contract assets	17	18
Reinsurers' share of insurance liabilities (see note 22)	39	24
Other receivables	4	4
	223	201
Non-current		
Deferred consideration	–	3

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

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

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

17 Cash and cash equivalents

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

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

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

18 Trade and other payables

	2019 £m	2018 £m
Current		
Trade payables	88	103
Other taxes and social security costs	12	18
Accruals	61	54
Deferred income	233	236
Deferred consideration	2	15
Provision for unearned premiums in Insurance Underwriting (see note 22)	26	14
Other payables	40	40
Obligations under finance lease agreements (see note 29)	49	48
	511	528
Non-current		
Deferred consideration	10	11

Trade payables include £63m (2018: £66m) relating to amounts due to underwriters in respect of insurance broking activities.

Deferred income primarily relates to roadside subscriptions deferred on a time apportionment basis. Of the revenue recognised in the year, £221m (2018: £226m) was included within deferred income at the beginning of the year.

Current and non-current deferred consideration relates to the acquisition of Used Car Sites Limited (see notes 12 and 26).

Included in deferred income is £15m (2018: £15m) which will be released over a period more than 12 months after the statement of financial position date.

19 Borrowings and loans

	2019 £m	2018 £m
Borrowings (see note 20)	2,724	2,727
Interest rate swap used for hedging (see note 27)	–	9
	2,724	2,736

The interest rate swap liability is shown on a net basis as the liability is settled with each counterparty on a net basis. On a gross basis, the asset is £nil (2018: £8m) and the liability is £nil (2018: £17m).

20 Borrowings

	Expected maturity date	Interest rate	Principal £m	Issue costs £m	Amortised issue costs £m	Total at 31 January 2019 £m	Total at 31 January 2018 £m
Senior Term Facility	31 July 2021	5.71%	–	–	–	–	249
Class A2 notes	31 July 2025	6.27%	500	(1)	1	500	500
Class A3 notes	31 July 2020	4.25%	200	(1)	1	200	499
Class A5 notes	31 January 2022	2.88%	700	(47)	17	670	671
Class A6 notes	31 July 2023	2.75%	250	(4)	1	247	246
Class A7 notes	31 July 2024	4.88%	550	(8)	1	543	–
Class B2 notes	31 July 2022	5.50%	570	(16)	10	564	562
		4.52%	2,770	(77)	31	2,724	2,727

At 31 January 2019, all borrowings have fixed interest rates. The weighted average interest rate for all borrowings of 4.52% has been calculated using the effective interest rate and carrying values on 31 January 2019.

A summary of the Group's financing transactions is shown below.

	Senior Term Facility £m	Class A2 £m	Class A3 £m	Class A5 £m	Class A6 £m	Class A7 £m	Class B2 £m	Total £m
As at 1 February 2018	250	500	500	700	250	–	570	2,770
Issue/repayment date: 17 July 2018	(250)	–	(300)	–	–	550	–	–
Total	–	500	200	700	250	550	570	2,770

In order to show the Group's net borrowings, the notes and the issue costs have been offset. Issue costs are shown net of any premium on the issue of borrowings. Interest rate swaps are recognised in the statement of financial position at fair value at the year end.

All of the Class A notes are secured by first ranking security in respect of the undertakings and assets of AA Intermediate Co Limited and its subsidiaries. The Class A facility security over the AA Intermediate Co Limited group's assets ranks ahead of the Class B2 notes. The Class B2 notes have first ranking security over the assets of the immediate parent undertaking of the AA Intermediate Co Limited group, AA Mid Co Limited. AA Mid Co Limited can only pay a dividend when certain Net Debt to EBITDA and cash flow criteria are met.

Any voluntary repayment of the Class B2 notes would be made at a fixed premium based on the date of redemption. Any voluntary early repayments of the Class A notes would incur a make-whole payment of all interest due to expected maturity date, except the Class A5, Class A6 and Class A7 notes which can be settled without penalty within three months, two months and three months respectively of the expected maturity date.

On 17 July 2018, the Group issued £550m of Class A7 notes at an interest rate of 4.88%. £8m of costs associated with the issue of the A7 notes were capitalised. This consisted of £2m of premium and £6m of new issue fees.

From the proceeds of the A7 notes, the Group repaid £300m of A3 notes incurring a penalty of £15m and the £250m Senior Term Facility (STF). In line with the Group accounting policy, this was accounted for as an extinguishment of debt and therefore issue costs associated with the A3 notes and the STF have been written off totalling £3m.

On 17 July 2018, the Group also entered into a new undrawn £200m forward starting Senior Term Facility due in July 2023 in order to secure committed funding to be able to redeem the £200m of Class A3 notes left outstanding at their effective maturity on 31 July 2020. In addition, a new working capital facility of £60m (together with a £15m accordion facility), was put in place to replace the previous £75m working capital facility, with a maturity to 31 July 2023 and with the same margin as the previous facility. In line with group policy the fees associated with this of £3m were written off, as both facilities were undrawn.

Following the repayment of the STF, all but one of the outstanding interest rate swaps scheduled to conclude after 31 July 2018 were settled for £7m. One future dated interest rate swap was left in place to cover the undrawn STF. Following the settlement of the interest rate swaps and the repayment of the original STF, there is no longer an interest rate hedge on the original STF so the cash flow hedge reserve was released back through other comprehensive income.

On 30 July 2018, the Group drew down £15m of the working capital facility. This was repaid on 29 August 2018.

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

In order to comply with the requirements of the Class A notes, we are required to maintain the Class A free cash flow to debt service ratio in excess of 1.35x. The actual Class A free cash flow to debt service ratio as at 31 January 2019 was 2.6x (2018: 3.3x). The Class B2 notes require us to maintain the Class B2 free cash flow to debt service ratio in excess of 1x. The actual Class B2 free cash flow to debt service ratio as at 31 January 2019 was 1.9x (2018: 2.4x).

The Class A notes only permit the release of cash providing the senior leverage ratio after payment is less than 5.5x and providing there is sufficient excess cash flow to cover the payment. The Class B2 notes restrictions only permit the release of cash providing the fixed charge cover ratio after payment is more than 2:1 and providing that the aggregate payments do not exceed 50% of the accumulated consolidated net income.

The Class A and Class B2 notes therefore place restrictions on the Group's ability to upstream cash from the key trading companies to pay external dividends and finance activities unconstrained by the restrictions embedded in the debts.

21 Provisions

	Property leases £m	Restructuring £m	Duplicate breakdown cover £m	Other £m	Total £m
At 31 January 2017	17	3	10	–	30
Utilised during the year	(2)	(2)	(8)	–	(12)
Released during the year	(9)	(1)	(1)	–	(11)
Charge for the year	–	10	–	–	10
At 31 January 2018	6	10	1	–	17
Utilised during the year	(2)	(9)	(1)	–	(12)
Released during the year	–	(1)	–	–	(1)
Charge for the year	1	–	–	2	3
At 31 January 2019	5	–	–	2	7
Current	1	–	–	2	3
Non-current	4	–	–	–	4
At 31 January 2019	5	–	–	2	7
Current	2	10	1	–	13
Non-current	4	–	–	–	4
At 31 January 2018	6	10	1	–	17

The property leases provision primarily relates to dilapidations. These sums are mainly expected to be paid out over the next 10 years; however, it will take 35 years to fully pay out all amounts provided for. The provision has been calculated on a pre-tax discounted basis. On 23 March 2018, the Group signed a settlement agreement to exit from the onerous Halfords service centres lease contracts, agreeing a final settlement of £2m. This was paid during the 2010 financial year.

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

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

In the 2017 financial year, the Group became aware that there was some duplication of roadside assistance cover taken by a limited number of business-to-business customers who were personal members and who also held AVAs (added value accounts) with the Group's banking partners. Whilst some were unaware that they had duplicate cover, others chose to maintain this to receive the benefits of membership. Through the review of data for the new customer relationship management systems, the Group identified a group of customers for whom the benefit of holding both forms of cover was not clear. The Group proposed a programme of remediation for them which has the support of the regulatory authority. During the 2018 financial year, £5m was paid out in respect of premiums previously paid for breakdown cover and £3m in respect of interest payable on those premiums while £1m was released. The remaining amount of £1m was paid out during the 2019 financial year.

Litigation – update on Mr Mackenzie's claim

As reported in the prior year accounts, the former Executive Chairman, Bob Mackenzie, who was dismissed for gross misconduct on 1 August 2017, had on 6 March 2018 issued a claim for substantial damages against AA plc, its subsidiary (Automobile Association Developments Limited) (together, 'the Companies') and personally against a number of their directors (existing and former) and the former Company Secretary.

In November 2018, Mr Mackenzie's claim against all the directors and the former Company Secretary was dismissed in full and he was ordered to pay their costs to be assessed by the Court if not agreed. Mr Mackenzie's claim against the Companies has not progressed materially, nor has he provided the Companies with full details of his alleged loss. The Companies continue to maintain their counterclaim for the reimbursement of previous bonuses paid to Mr Mackenzie. The Board assumes for the purpose of these financial statements that Mr Mackenzie will proceed with the claim against the Companies but maintains that it is not necessary for the Group to make a financial provision as it expects the defence will prevail.

22 Insurance Underwriting

Reconciliation to segmental result

	2019 £m	2018 £m
Gross earned premium	33	38
Earned premium ceded to reinsurers	(17)	(28)
Net earned premium	16	10
Deferral of broker commission	(1)	(1)
Other income	4	3
Insurance Underwriting revenue (see note 2)	19	12

	2019 £m	2018 £m
Gross claims incurred	(30)	(34)
Less reinsurance recoveries	12	22
Net claims paid	(18)	(12)
Administrative costs	1	3
Deferral of broker acquisition costs	4	(2)
Insurance Underwriting costs	(13)	(11)

Reconciliation of movements in the provision for unearned premiums

	2019 £m	2018 £m
Gross unearned premiums at 1 February	14	18
Less: reinsurers' share of unearned premiums	(5)	(15)
Net unearned premiums at 1 February	9	3
Gross premiums written	45	34
Less: outward reinsurance premium ceded	(29)	(18)
Net premiums written	16	16
Gross premiums earned	(33)	(38)
Less: earned premium ceded to reinsurers	17	28
Net premiums earned	(16)	(10)
Gross unearned premiums at 31 January (see note 18)	26	14
Less: reinsurers' share of unearned premiums (see note 16)	(17)	(5)
Net unearned premiums at 31 January	9	9

Reconciliation of movements in claims outstanding

	2019 £m	2018 £m
Gross claims outstanding at 1 February	24	16
Less: reinsurers' share of claims outstanding	(19)	(13)
Net claims outstanding at 1 February	5	3
Gross claims incurred	30	34
Less: reinsurance recoveries	(12)	(22)
Net claims incurred	18	12
Gross claims paid	(24)	(26)
Less: received from reinsurers	9	16
Net claims paid	(15)	(10)
Gross claims outstanding at 31 January (see below)	30	24
Less: reinsurers' share of claims outstanding (see note 16)	(22)	(19)
Net claims outstanding at 31 January	8	5

Insurance technical provisions

	2019 £m	2018 £m
Outstanding claims provisions	23	18
Other technical provisions – provisions for incurred but not reported (IBNR) claims	7	6
	30	24

Provision is made for the estimated cost of claims incurred but not settled at the statement of financial position date, including the cost of claims incurred but not yet reported. The estimated cost of claims includes expenses to be incurred in settling claims.

The purpose of the outstanding claims provision is to ensure adequate reserves are in place for claims where the incident has already occurred. It is calculated by aggregating the case reserves for all the claims that have already been reported to us, which are estimated by using the most up to date information available concerning each case.

The purpose of the IBNR reserve is to reflect the additional claims cost from claims incurred but not reported before the statement of financial position date. Standard actuarial claims projection techniques are used to estimate outstanding claims. Such methods extrapolate the development of paid and incurred claims, recoveries from third parties, average cost per claim and ultimate claim numbers for each accident year, based upon the observed development of earlier years and expected loss ratios.

The group's results are not materially susceptible to changes within the assumptions used within the insurance technical provisions due to the reinsurance arrangements in place.

23 Share capital

	2019 £m	2018 £m
Allotted, called up and fully paid		
613,221,434 (2018: 610,807,568) ordinary shares of £0.001 each	1	1
	1	1

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

All movement in the number of shares relates to the issue of matching shares in relation to the Employee Share Incentive Plans (see note 34).

The MVP shares issued were as follows:

	2019 £000	2018 £000
Allotted, called up and fully paid		
20,000,000 (2018: 20,000,000) MVP A shares of £0.001 each	20	20
20,000,000 (2018: 20,000,000) MVP B shares of £0.001 each	20	20
20,000,000 (2018: 20,000,000) MVP C shares of £0.001 each	20	20
	60	60

The MVP shares have no voting rights. There are 8 million shares in each of the following MVP share classes: A1, B1 and C1. There are 12 million shares in each of the following MVP share classes: A2, B2 and C2. In total, there are 60 million MVP shares. See also note 34.

24 Reserves

	Share premium £m	Own shares £m	Currency translation reserve £m	Cash flow hedge reserve £m	Retained earnings £m	Total £m
At 31 January 2017	403	(26)	1	2	(2,294)	(1,914)
Retained profit for the year	–	–	–	–	111	111
Dividends paid	–	–	–	–	(56)	(56)
Purchase of own shares by the Employee Benefit Trust	–	(3)	–	–	–	(3)
Issue of shares	3	–	–	–	–	3
Other reserves	–	–	–	(2)	2	–
Other comprehensive income:						
Exchange differences on translation of foreign operations	–	–	(1)	–	–	(1)
Remeasurement gains on defined benefit schemes (note 25)	–	–	–	–	120	120
Tax effect of remeasurement gains on defined benefit schemes (note 9)	–	–	–	–	(21)	(21)
Effective portion of changes in fair value of cash flow hedges	–	–	–	8	–	8
Tax effect of effective portion of changes in fair value of cash flow hedges (note 9)	–	–	–	(3)	–	(3)
At 31 January 2018	406	(29)	–	5	(2,138)	(1,756)
Retained profit for the year	–	–	–	–	42	42
Dividends paid	–	–	–	–	(12)	(12)
Purchase of own shares by the Employee Benefit Trust	–	(2)	–	–	–	(2)
Issue of shares	2	–	–	–	–	2
IFRS 9 conversion	–	–	–	–	13	13
IFRS 9 conversion deferred tax impact	–	–	–	–	(2)	(2)
Share-based payments (note 34)	–	–	–	–	4	4
Other comprehensive income:						
Remeasurement gains on defined benefit schemes (note 25)	–	–	–	–	30	30
Tax effect of remeasurement gains on defined benefit schemes (note 9)	–	–	–	–	(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 9)	–	–	–	1	–	1
At 31 January 2019	408	(31)	–	–	(2,068)	(1,691)

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 2019, total dividends of 2.0p (2018: 9.3p) per qualifying ordinary share were paid. Dividends are paid from the unconsolidated distributable reserves of AA plc. As at 31 January 2019, the Company had distributable reserves of £522m (2018: £531m). In February 2019, the Directors proposed a final dividend of 1.4p per ordinary share (2018: 1.4p), representing total dividend payments of £12m for the 2019 financial year (2018: £30m). Subject to approval by shareholders at the AGM on 5 June 2019, the dividend will be paid on 17 June 2019 and will be accounted for as an appropriation of retained earnings in the 2020 financial year.

25 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 closed final salary and Career Average Revalued Earnings (CARE) sections. CARE provided for benefits to accrue on an average salary basis. From 2004 to 2016, new entrants to the AAUK scheme accrued benefits in the CARE section but the AAUK scheme was closed to new entrants from 1 October 2016. On 1 July 2017, accrual ceased under the final salary sections and members were moved to the CARE section for future accrual of benefits. In addition, from April 2018 pension indexation in the CARE section was changed and is now based on CPI inflation, rather than RPI inflation. 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 2019 by independent qualified actuaries.

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

	As at 31 January 2019			
	AAUK £m	AAI £m	AAPMP £m	Total £m
Present value of the defined benefit obligation in respect of pension plans	(2,409)	(50)	(45)	(2,504)
Fair value of plan assets	2,242	44	–	2,286
Deficit	(167)	(6)	(45)	(218)

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

The decrease in the deficit is primarily due to changes in the financial assumptions over the period (in particular an increase in the discount rates) and demographic assumptions (reflecting the latest outlook for mortality rates), and Group contributions paid into the schemes. This was partially offset by the performance of plan assets being below expectations and recognition of the one-off past service cost discussed below.

During the year the Group recognised a one-off cost of £22m as a result of Guaranteed Minimum Pension (GMP) equalisation. This is a past service cost that pension schemes that had "contracted out" of the State Earnings Related Pension Scheme must now recognise following the Lloyds Banking Group judgement in October 2018. This judgement requires the equalisation of male and female members' benefits for the effect of unequal GMPs.

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 £13m increasing annually with inflation, until October 2038, secured on the Group's brands. The next triennial valuation of the AAUK scheme will take place as at 31 March 2019.

The last triennial valuation 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 has 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.

Using an inflation assumption of 3.2% and a discount rate assumption of 2.5%, 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 £2m in the year ended 31 January 2019 and will continue to make annual deficit reduction contributions, increasing with inflation, until December 2023 or until an alternative agreement is signed with the trustees. The next triennial valuation of the AAI scheme will take place as at 31 December 2019.

In total, the Group is currently committed to pay £21m in ongoing employer contributions and £25m in deficit reduction employer contributions to its defined benefit plans (AAUK and AAI) in the year ending 31 January 2020.

The Group recognised a charge in the income statement of £6m in respect of defined contribution pension scheme costs in the year (2018: £3m).

Total Group schemes

	Assets £m	Liabilities £m	Income statement £m	Statement of comprehensive income £m
Balance at 1 February 2017	2,232	(2,627)	–	–
Current service cost	–	(31)	(31)	–
Past service cost	–	34	34	–
Interest on defined benefit scheme assets/(liabilities)	61	(71)	(10)	–
Amounts recognised in the income statement	61	(68)	(7)	–
Effect of changes in financial assumptions	–	(56)	–	(56)
Effect of changes in demographic assumptions	–	65	–	65
Effect of experience adjustment	–	38	–	38
Return on plan assets excluding interest income	73	–	–	73
Amounts recognised in the statement of comprehensive income	73	47	–	120
Foreign exchange gain/(loss)	1	(1)	–	–
Contribution from scheme participants	1	(1)	–	–
Benefits paid from scheme assets	(64)	64	–	–
Ongoing employer contributions	21	–	–	–
Deficit reduction employer contributions	21	–	–	–
Movements through cash	(21)	63	–	–
Balance at 31 January 2018	2,346	(2,586)	–	–
Current service cost	–	(25)	(25)	–
Past service cost	–	(22)	(22)	–
Interest on defined benefit scheme assets/(liabilities)	59	(65)	(6)	–
Amounts recognised in the income statement	59	(112)	(53)	–
Effect of changes in financial assumptions	–	99	–	99
Effect of changes in demographic assumptions	–	15	–	15
Effect of experience adjustment	–	(15)	–	(15)
Return on plan assets excluding interest income	(69)	–	–	(69)
Amounts recognised in the statement of comprehensive income	(69)	99	–	30
Contribution from scheme participants	1	(1)	–	–
Benefits paid from scheme assets	(96)	96	–	–
Ongoing employer contributions	21	–	–	–
Deficit reduction employer contributions	24	–	–	–
Movements through cash	(50)	95	–	–
Balance at 31 January 2019	2,286	(2,504)	–	–

AAUK scheme

	Assets £m	Liabilities £m	Income statement £m	Statement of comprehensive income £m
Balance at 1 February 2017	2,190	(2,515)	–	–
Current service cost	–	(31)	(31)	–
Past service gain	–	34	34	–
Interest on defined benefit scheme assets/(liabilities)	60	(68)	(8)	–
Amounts recognised in the income statement	60	(65)	(5)	–
Effect of changes in financial assumptions	–	(54)	–	(54)
Effect of changes in demographic assumptions	–	59	–	59
Effect of experience adjustment	–	25	–	25
Return on plan assets excluding interest income	72	–	–	72
Amounts recognised in the statement of comprehensive income	72	30	–	102
Foreign exchange gain/(loss)	–	–	–	–
Contribution from scheme participants	1	(1)	–	–
Benefits paid from scheme assets	(60)	60	–	–
Ongoing employer contributions	21	–	–	–
Deficit reduction employer contributions	19	–	–	–
Movements through cash	(19)	59	–	–
Balance at 31 January 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)	–	–

AAI scheme

	Assets £m	Liabilities £m	Income statement £m	Statement of comprehensive income £m
Balance at 1 February 2017	42	(53)	–	–
Current service cost	–	–	–	–
Past service gain	–	–	–	–
Interest on defined benefit scheme assets/(liabilities)	1	(1)	–	–
Amounts recognised in the income statement	1	(1)	–	–
Effect of changes in financial assumptions	–	(2)	–	(2)
Effect of changes in demographic assumptions	–	2	–	2
Effect of experience adjustment	–	2	–	2
Return on plan assets excluding interest income	1	–	–	1
Amounts recognised in the statement of comprehensive income	1	2	–	3
Foreign exchange gain/(loss)	1	(1)	–	–
Contribution from scheme participants	–	–	–	–
Benefits paid from scheme assets	(3)	3	–	–
Ongoing employer contributions	–	–	–	–
Deficit reduction employer contributions	1	–	–	–
Movements through cash	(2)	3	–	–
Balance at 31 January 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)	–	–

AA PMP scheme

	Assets £m	Liabilities £m	Income statement £m	Statement of comprehensive income £m
Balance at 1 February 2017	–	(59)	–	–
Current service cost	–	–	–	–
Past service gain	–	–	–	–
Interest on defined benefit scheme assets/(liabilities)	–	(2)	(2)	–
Amounts recognised in the income statement	–	(2)	(2)	–
Effect of changes in financial assumptions	–	–	–	–
Effect of changes in demographic assumptions	–	4	–	4
Effect of experience adjustment	–	11	–	11
Return on plan assets excluding interest income	–	–	–	–
Amounts recognised in the statement of comprehensive income	–	15	–	15
Foreign exchange gain/(loss)	–	–	–	–
Contribution from scheme participants	–	–	–	–
Benefits paid from scheme assets	(1)	1	–	–
Ongoing employer contributions	–	–	–	–
Deficit reduction employer contributions	1	–	–	–
Movements through cash	–	1	–	–
Balance at 31 January 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)	–	–

Fair value of plan assets

The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

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:

	2019		2018	
	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	156	324	174	352
Bonds/swaps	514	205	813	211
Property	87	189	88	183
Hedge funds	21	394	23	440
Private equity	17	14	–	–
Cash/net current assets	15	2	17	2
Annuity policies	–	304	–	–
Total AAUK scheme assets	810	1,432	1,115	1,188
Actual (losses)/gains on AAUK plan assets	(11)		132	

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

	2019		2018	
	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	10	–	10	–
Bonds/swaps	18	–	14	–
Property	–	5	–	–
Hedge funds	11	–	–	19
Total AA Ireland scheme assets	39	5	24	19
Actual return on AA Ireland plan assets	1		2	

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 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, gilts and other hedging instruments like swaps 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 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.

Pension plan assumptions

The principal actuarial assumptions were as follows:

	AAUK		AAI		AAPMP	
	2019 %	2018 %	2019 %	2018 %	2019 %	2018 %
Pensioner discount rate	2.5	2.5	1.3	1.6	2.5	2.5
Non-pensioner discount rate	2.7	2.6	2.1	2.3	2.5	2.5
Pensioner RPI	3.2	3.3	–	–	3.2	3.3
Non-pensioner RPI	3.1	3.3	–	–	3.2	3.3
Pensioner CPI	2.1	2.2	1.3	1.6	2.1	2.2
Non-pensioner CPI	2.0	2.2	1.3	1.6	2.1	2.2
Rate of increase of pensions in payment (final salary sections) – pensioner	3.1	3.1	–	–	–	–
Rate of increase of pensions in payment (final salary sections) – non-pensioner	3.0	3.1	–	–	–	–
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	1.6	1.7	–	–	–	–
Pensioner increase for deferred benefits	2.0	2.2	1.3	1.6	–	–
Medical premium inflation rate	–	–	–	–	7.2	7.3

Mortality assumptions are set using standard tables based on scheme-specific experience where available and an allowance for future improvements. For 2019, the assumptions used were in line with the SAPS (S2) series mortality tables (2018 – SAPS (S2) series) with future improvements in line with the CMI_2017 model with a 1.25% long-term rate of improvement (2018 – CMI_2016 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 27 years and an active female retiring in normal health currently aged 60 will live on average for a further 29 years.

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 2019		
	AAUK £m	AAI £m	AAPMP £m
Increase of 0.25% in discount rate	117	3	2
Increase of 0.25% in RPI	(94)	(1)	–
Increase of 1% in medical claims inflation	–	–	(9)
Increase of one year of life expectancy	(87)	(2)	–

An equivalent decrease in the assumptions at 31 January 2019 would have had the 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 2019 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 through regular reviews of the investment portfolios. In addition, under guidance from their investment advisers, the trustees 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.

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 around 70% 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 January 2019, the scheme has hedged around 75% of interest rate risk and around 70% of 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 from Canada Life which insures all the benefits payable under the scheme in respect of 2,510 pensioner and dependent members. The trustee has invested in such a policy as the AAUK scheme will see all financial and demographic risks exactly matched for the covered 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 23 August 2018, the date of the risk transfer to Canada Life, the defined benefit obligation for the covered population was c. £47m less than the premium of c. £351m paid for the policy. This difference between premium paid and fair value of the insurance policy has been recognised in the Group's statement of financial position as at 31 January 2019 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 AAUK scheme) which we expect will be 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.

26 Impairment of intangible assets

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

The carrying value of goodwill by CGU is as follows:

	2019 £m	2018 £m
Roadside Assistance	874	874
Insurance Services	240	240
AA Cars (see note 12)	25	25
DriveTech	31	31
	1,170	1,170

The Group has performed impairment testing at 31 January 2019 and 31 January 2018. The impairment test compares the recoverable amount of the CGU with its carrying value.

The recoverable amount of each CGU has been determined based on a value in use calculation using cash flow projections from the Group's three-year plan up to 31 January 2022 and a 2% growth expectation in the subsequent two years. For the purposes of the impairment test, terminal values have been calculated using a 2% growth assumption. Cash flows have been discounted at a pre-tax rate reflecting the time value of money and the risk specific to these cash flows. This has been determined as a pre-tax rate of 9.9% (2018: 9.6%).

The value in use calculation used is most sensitive to the assumptions used for growth and for the discount rate. Accordingly, stress testing has been performed on these key assumptions as part of the impairment test to further inform the consideration of whether any impairment is evident.

In the prior financial year, the Driving Schools' goodwill was impaired by £26m to £nil as a result of this review and the DriveTech goodwill was impaired by £1m prior to the disposal of the Group's Dutch driver training business. DriveTech goodwill was not impaired in the current financial year.

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

27 Financial assets and financial liabilities

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

Financial assets

	2019 £m	2018 £m
Loans and receivables		
Cash and cash equivalents	116	150
Trade receivables	146	137
Deferred consideration	3	6
Reinsurers' share of insurance liabilities	39	24
Other receivables and contract assets	21	21
Total financial assets	325	338

Financial liabilities

	2019 £m	2018 £m
Measured at fair value through other comprehensive income		
Interest rate and fuel swaps used for hedging	–	9
Deferred consideration	12	26
Loans and borrowings		
Trade payables	88	103
Other payables and accruals	74	54
Obligations under finance lease agreements	61	64
Insurance technical provisions	30	24
Borrowings	2,724	2,727
Total financial liabilities	2,989	3,007

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 interest rate 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 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				
Interest rate and fuel swaps (note 19)	–	–	–	–
Deferred consideration (due in more than one year) (note 18)	10	–	10	–
Liabilities for which fair values are disclosed				
Loan notes (note 20)	2,724	2,577	–	–

At 31 January 2018:

	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				
Interest rate and fuel swaps (note 19)	9	–	9	–
Deferred consideration (due in more than one year) (note 18)	11	–	11	–
Liabilities for which fair values are disclosed				
Loan notes (note 20)	2,478	2,639	–	–

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 2019.

28 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.

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

	2019 £m	2018 £m
Fixed rate instruments		
Financial liabilities	(2,786)	(2,532)
Effect of interest rate swaps	–	(250)
Net exposure to fixed rate instruments	(2,786)	(2,782)
Variable rate instruments		
Financial liabilities	–	(249)
Effect of interest rate swaps	–	250
Net exposure to variable rate instruments	–	1

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 2019 would have increased equity by £nil (2018: £1m) and would have had no impact on profit or cash because the Senior Term Facility was repaid during the period (see note 20). A decrease to interest rates of the same magnitude will have an equal and opposite effect on equity and profit. This calculation assumes that the change occurred at the year end and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables remain constant and considers the effect of financial instruments with variable interest rates and the fixed rate element of interest rate swaps. The analysis is performed on the same basis for all comparative periods.

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.

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
2019	146	142	3	–	1
2018	137	131	4	–	2

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

	2019 £m	2018 £m
At 1 February	3	2
Charge for the year	2	3
Utilised	(3)	(1)
Unused amounts reversed	–	(1)
At 31 January	2	3

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 2019:

	Less than 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Loans and borrowings	125	343	2,216	1,110	3,794
Obligation under finance leases	51	10	3	–	64
Other payables and accruals	74	–	–	–	74
Insurance liabilities	22	4	3	1	30
Contingent consideration	2	4	6	–	12
Trade payables	88	–	–	–	88
	362	361	2,228	1,111	4,062

At 31 January 2018:

	Less than 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Loans and borrowings	117	117	2,282	832	3,348
Obligation under finance leases	52	10	7	–	69
Other payables and accruals	54	–	–	–	54
Insurance liabilities	18	3	2	1	24
Contingent consideration	–	6	5	–	11
Trade payables	103	–	–	–	103
	344	136	2,296	833	3,609

Interest rate swaps used for hedging

Assets (inflow)	(7)	–	–	–	(7)
Liabilities	19	2	3	–	24
	12	2	3	–	17
	356	138	2,299	833	3,626

Insurance risk

The group is exposed to insurance risk through its underwriting activities. The Company manages these risks through its underwriting strategy, reinsurance arrangements and proactive claims handling. For further detail regarding insurance risk please refer to page 35 of the annual report.

Capital management

As noted in the Financial Review on pages 29 to 32, the Group considers its capital to be a combination of Net Debt and equity.

	2019 £m	2018 £m
Total Net Debt	2,715	2,684
Equity (valued at close on 31 January)	512	770
Total capital	3,227	3,454

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;
- > to reduce Group borrowings and associated interest costs; and
- > to provide an adequate return to shareholders.

The relative priorities of these objectives are discussed on page 31 of the Financial Review.

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:

	2019 £m	2018 £m
Senior Term Facility	–	250
Class A notes	2,200	1,950
Less: AA Intermediate Co Limited group cash and cash equivalents	(20)	(50)
Net Senior Secured Debt ¹	2,180	2,150
Class B2 notes	570	570
Finance lease obligations	61	64
Net Whole Business Securitisation (WBS) Debt ²	2,811	2,784
Less: AA plc group cash and cash equivalents ³	(96)	(100)
Total Net Debt	2,715	2,684
AA plc Trading EBITDA	341	391
AA Intermediate Trading EBITDA ⁴	337	393
Net Debt ratio ⁵	8.0x	6.9x
Class B2 leverage ratio ⁶	8.3x	7.1x
Senior leverage ratio ⁷	6.5x	5.47x
Interest cover ⁸	2.6x	2.8x

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

2 WBS debt represents the borrowings and cash balances within the WBS structure headed by AA Intermediate Co Limited. This includes the principal amounts of the Senior Term Facility, Class A notes, Class B2 notes and finance leases less AA Intermediate Co Limited group cash and cash equivalents.

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

4 AA Intermediate Co Limited group Trading EBITDA including discontinued operations and business held for sale as required by the debt documents.

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

6 Ratio of Net WBS Debt to AA Intermediate Trading EBITDA for the last 12 months.

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

8 AA plc Trading EBITDA for the last 12 months divided by total ongoing cash finance costs (see note 6).

The Senior Term Facility, Class A notes and Class B2 notes have interest cover covenants attached to them. The Group was in compliance with all covenants throughout the period and as at 31 January 2019.

The Group includes regulated companies which are required to hold sufficient capital to meet acceptable solvency levels based on the relevant regulators' requirements (see note 17). There are no other externally imposed capital requirements.

Further details on our policies and processes for managing capital as well as the thresholds set for the covenants above are set out in the Financial Review on pages 29 to 32.

29 Commitments and contingencies

Operating lease commitments

Future minimum rentals payable under non-cancellable operating leases as at 31 January are as follows:

	Land and buildings	
	2019 £m	2018 £m
Within one year	3	4
Between one and five years	10	9
After five years	27	27
	40	40
Amounts included in onerous lease provisions	(1)	(1)
	39	39

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, a provision is made.

Finance lease commitments

The Group has finance lease contracts for various items of plant, equipment and vehicles. Future minimum lease payments under finance lease contracts together with the present value of the net 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	49	51	48	52
Between one and five years	12	13	16	17
Total minimum lease payments	61	64	64	69
Less amounts representing finance charge	–	(3)	–	(5)
Present value of minimum lease payments	61	61	64	64

Lease accounting under IFRS 16

Upon adoption of IFRS 16, the Group's accounting treatment of leases will change from 1 February 2019 (see note 35).

Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £15m (2018: £22m).

30 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.

31 Auditors' remuneration

	2019 £m	2018 £m
Amounts receivable by the Company's auditors and 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 £0.2m (2018: £0.2m).

In addition, fees for non-audit services provided by the Company's auditors were £0.2m (2018: £0.1m), relating to refinancing and other advisory work.

32 Related party transactions

The following table provides the total value of transactions that have been entered into with associates during each financial year:

Transactions with associates:

Associate	Nature of transaction	2019 £m	2018 £m
ARC Europe SA	Registration and call handling fees	–	4

33 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 consists of the Chief Executive Officer, Chief Financial Officer, Non-Executive Directors and the Executive Committee as well as the former Executive Chairman until his dismissal.

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

	2019 £m	2018 £m
Short-term employee benefits	6	5
Share-based payments (see note 34)	1	(2)
Total compensation paid to key management personnel	7	3

See also the Directors' Remuneration Report on page 72.

34 Share-based payments

	2019 £m	2018 £m
Equity-settled share-based payments:		
Share-based payments – MVP shares	–	4
Share-based payments – LTBP	–	1
Share-based payments – Performance Share Plan	1	–
Share-based payments – Employee Share Incentive Plan	3	2
Total equity-settled share-based payments	4	7
Cash-settled share-based payments:		
Share-based payments – Longacre LTBP	1	–
Total share-based payments expense net of exceptional item	5	7
Share-based payments – MVP shares – exceptional item	–	(7)
Total share-based payments expense	5	–

Shares held in trust

As at 31 January 2019, the following ordinary shares were held in trust:

Intertrust – Employee Benefit Trust (EBT)	4,111,423
Equiniti – ESIP	13,428,262
Link Asset Services – ESIP Ireland	24,798
Total ordinary shares held in trust	17,564,483

Management value participation shares (MVP shares)

On 23 June 2014, the Company issued 24 million convertible, redeemable MVP shares to certain key members of senior management at £0.001 per share. These shares were divided into three classes and are convertible into ordinary shares following satisfaction of a Total Shareholder Return (TSR) performance condition of 12% (or above) per annum compound growth against the admission price of £2.50 which is tested on the third, fourth and fifth anniversaries of admission to the London Stock Exchange. A further 36 million MVP shares were issued at £0.001 per share on 22 December 2015.

14.2% of the issued MVP shares were held in the EBT and on 22 April 2016 awards were granted by the EBT to further key members of senior management over ordinary shares which convert from the remaining 14.2% (amounting to 8,520,000) MVP shares.

The MVP share-based payments are equity settled. The following table illustrates the number and fair value of the MVP shares:

	Vesting date	2019 No. of shares	2018 No. of shares	2019 Fair value per share £	2018 Fair value per share £
June 2014 awards:					
A1 shares	23 June 2017	8,000,000	8,000,000	0.25	0.25
B1 shares	23 June 2018	8,000,000	8,000,000	0.26	0.26
C1 shares	23 June 2019	8,000,000	8,000,000	0.26	0.26
December 2015 awards:					
A2 shares	23 June 2017	9,160,000	9,160,000	0.38	0.38
B2 shares	23 June 2018	9,160,000	9,160,000	0.40	0.40
C2 shares	23 June 2019	9,160,000	9,160,000	0.40	0.40
April 2016 awards:					
A2 shares	23 June 2017	2,840,000	2,840,000	0.35	0.35
B2 shares	23 June 2018	2,840,000	2,840,000	0.35	0.35
C2 shares	23 June 2019	2,840,000	2,840,000	0.35	0.35
Total		60,000,000	60,000,000		

Having previously failed to vest, the A and B shares may still vest and be converted on the fifth anniversary of admission. The C shares will be tested for the first time on the fifth anniversary of admission.

All MVP shares were valued using a binomial model and 25% volatility assumption to calculate the fair value using risk-free interest rates in a range of 0.38% – 1.82%. The expected volatility reflects the assumption that the historical volatility is indicative of future trends which may not necessarily be the actual outcome.

On 1 August 2017, the former Executive Chairman, who held 55% of the MVP shares, was dismissed for gross misconduct. Under the rules of the scheme he was deemed to be a bad leaver and therefore the Company had the right to request transfer of (and failing compliance, transfer itself) all those MVP shares for a total consideration of 1 penny. The Company issued the transfer notice on 9 March 2018 and transferred the shares on 16 April 2018 to its EBT. As per IFRS 2, the share-based payment charge in relation to his shares, was reversed in the prior year resulting in a credit to exceptional operating items in the income statement of £7m and a corresponding debit to equity.

On 29 November 2018, the Group CFO transferred his entire holding of MVP shares back to the Company and so the corresponding share-based payment vesting charge has been accelerated in the year. These shares are now held in the EBT as at 31 January 2019.

Long Term Bonus Plan (LTBP)

As at 31 January 2019, the Company had issued 4 million conditional awards over market purchased ordinary shares held in the EBT to certain key members of senior management at nil cost. These shares were divided into three tranches, A, B and C and vest following satisfaction of a TSR performance condition of 12% per annum compound growth against the admission price which is tested on the third, and subject to earlier vesting, fourth and fifth anniversaries of admission to the London Stock Exchange and satisfaction of certain individual performance targets.

If the awards over A and B shares do not vest on the third anniversary of admission, then they are retested on the fourth and, if still not vested, the fifth anniversary. If the awards over B shares do not vest on the fourth anniversary of admission, then they are retested on the fifth anniversary. The awards over C shares are tested for the first time on the fifth anniversary.

The fair values of awards were calculated using a Monte Carlo simulation model. The expected volatility range of 20% – 32% reflects the assumption that the historical volatility is indicative of future trends which may not necessarily be the actual outcome.

The LTBP share-based payments are equity-settled. The following table illustrates the number and weighted fair values of the LTBP shares:

	Vesting date	2019 No. of shares	2018 No. of shares	2019 Weighted fair value per share £	2018 Weighted fair value per share £
A shares	26 June 2017	766,728	873,423	2.49	2.49
B shares	26 June 2018	750,084	859,069	1.98	1.98
C shares	26 June 2019	707,729	842,036	1.54	1.54
Total		2,224,541	2,574,528		

The number of ordinary shares over which awards are held has reduced by 349,987 due to leavers during the financial year (2018: reduced by 410,768 ordinary shares due to leavers). The difference between the 4 million issued awards and the current number of outstanding awards is due to leavers.

Retention Award

On 19 December 2017, the Company issued 2 million conditional awards over market purchased ordinary shares to certain key members of senior management who were already in the LTBP scheme, at nil cost.

These shares were divided into two tranches, 1 and 2, and vest following satisfaction of a TSR performance condition of 12% per annum compound growth against the re-based issue price which is tested on the fourth and fifth anniversaries of admission to the London Stock Exchange and satisfaction of certain individual performance targets.

The Retention Award will lapse or partially lapse if the original LTBP awards vest in full or in part.

The fair values of awards were calculated using a Monte Carlo simulation model. The expected volatility range of 32% – 36% reflects the assumption that the historical volatility is indicative of future trends which may not necessarily be the actual outcome.

The following table illustrates the number and fair values of the Retention Award shares:

	Vesting date	2019 No. of shares	2018 No. of shares	2019 Fair value per share £	2018 Fair value per share £
Tranche 1	6 November 2018	703,416	914,230	0.87	0.87
Tranche 2	6 November 2019	703,416	914,230	0.57	0.57
Total		1,406,832	1,828,460		

Employee Share Incentive Plans

The Group has a number of all-Employee Share Incentive Plans (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 the Company will match this on a 1:1 basis (Matching shares).

The ESIP share-based payments are equity-settled.

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 2019 ¹	Weighted fair value per share £
2015 ESIP:				
Partnership shares	29 August 2014	29 August 2015	2,132,766	0.23
Matching shares	29 August 2014	29 August 2018	2,132,766	2.58
2016 ESIP:				
Matching shares	See below	See below	1,366,211	2.20
2017 ESIP:				
Matching shares	See below	See below	1,727,537	1.64
2018 ESIP:				
Matching shares	See below	See below	2,760,185	1.00
Total			10,119,465	

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

The 2015 ESIP Partnership shares were valued using a Black-Scholes model. The expected volatility reflected the assumption that the historical volatility was indicative of future trends which may not necessarily have been the actual outcome.

For the 2016 ESIP onwards, ESIP shares were issued on the 11th day of each month with a vesting period of 36 months from the date they were issued.

Performance Share Plan (PSP)

During the 2018 financial year, awards were granted under the PSP scheme to the CEO and other members of Senior Management (the 2017 PSP scheme). As at 31 January 2018, no performance criteria had been set for these share awards and therefore, as there was no shared understanding of the terms of the scheme, no IFRS 2 charge was accounted for in the accounts for the 2018 financial year.

During the 2019 financial year, performance conditions were communicated to participants in the 2017 PSP scheme. As a result the grant date for this scheme occurred during the year, whereby there was a shared understanding of the terms of the scheme, and so a catch-up IFRS 2 charge was processed to bring the cumulative charge up to date as at 31 January 2019.

In addition to this, further awards were granted under the PSP scheme to members of senior management during the 2019 financial year.

A proportion of the PSP awards are subject to a comparative TSR performance condition. This includes 100% of the 2017 Award (due to the presence of a TSR underpin) and 50% of the 2018 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:

	Award date	Vesting date	2019 No. of shares	2018 No. of shares	2019 Weighted fair value per share £	2018 Weighted fair value per share £
2017 CEO Award	27 October 2017	27 October 2020	1,148,606	—	0.97	—
2017 Award	11 December 2017	27 October 2020	4,019,107	—	0.75	—
2018 CEO/CFO Award	7 November 2018	22 November 2021	1,950,412	—	0.86	—
2018 Award	7 November 2018	22 May 2021	5,946,613	—	0.86	—
Total			13,064,738	—		

Insurance Long Term Bonus Plan (Insurance LTBP)

During the year awards were granted under a LTBP to certain key members of senior management of the Group's Insurance businesses. The award date for this scheme was 23 January 2019 and so no IFRS 2 charge has been made as it would not have a material impact on the financial statements.

Longacre Long Term Bonus Plan (Longacre LTBP)

On 14 November 2016, a long-term incentive scheme was put in place for certain directors of Longacre Claims Limited (LCL), a subsidiary of the Group. These directors are also shareholders of the B shares in LCL. As part of this agreement, at any point after 31 January 2021, LCL's parent company AA Insurance Holdings Limited (AAIHL) can exercise a call option to purchase the B shares from the directors, or the directors can exercise a put option to sell the B shares to AAIHL. The consideration to be paid for the B shares is valued in accordance with an agreed methodology stated in the shareholder agreement. This methodology includes performance criteria which assesses the relative performance of Longacre Claims Limited in comparison with the average performance of a number of peer companies. In addition, the calculation is adjusted by a ratchet based on the performance of AA Underwriting Insurance Company Limited (AAUICL), a fellow subsidiary company, relative to planned performance.

The options over the B shares were granted on 14 November 2016 and as at 31 January 2019, all options were still outstanding. In the consolidated Group accounts these options are accounted for as a cash-settled share-based payment with a vesting period from 1 February 2016 to 31 January 2021. The vesting period covers the period over which the performance criteria is being measured rather than from the grant date. The total range in value of the B shares per the shareholder agreement, is between £nil and £6m.

During the current financial year, management obtained the required peer data to determine the exercise price of the options and booked the liability due and corresponding charge to the income statement. The accounting of the liability reflects the Group's obligation to purchase the shares from the LCL directors for cash.

The fair value of the B shares as at 31 January 2019 has been determined at £2m, the charge for which is taken to the income statement spread across the vesting period. The corresponding vesting charge to the income statement in the current year is £1m, with a resulting liability of £1m, which includes the catch-up charge for FY17 and FY18. The fair value is adjusted at each reporting date. This valuation assumes a probability-weighted outcome of the performance of AAUICL relative to the peer group and the ratchet adjustment under a number of different scenarios. This has been discounted using a rate of 11%.

35 Accounting standards, amendments and interpretations

IFRS 9 Financial Instruments

On 1 February 2018, the Group adopted IFRS 9 'Financial Instruments', which replaced IAS 39 'Financial Instruments: Recognition and Measurement'. The Group has not restated comparative information for prior periods.

Classification and measurement of financial assets and liabilities

On 1 February 2018, there were no changes to the carrying values of the Group's financial assets from adopting the new classification model.

There have been no changes to the classification of the Group's financial liabilities. The effect of adopting IFRS 9 on the carrying amount of financial liabilities at 1 February 2018 relates solely to new requirements relating to non-substantial modifications of borrowings and loans, as described further below.

The following table demonstrates the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities as at 1 February 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 £m	New carrying amount under IFRS 9 £m
Financial assets				
Trade and other receivables	Loans and receivables	Amortised cost	141	141
Cash and cash equivalents	Loans and receivables	Amortised cost	150	150
Total financial assets			291	291
Financial liabilities				
Interest swaps used for hedging	Fair value – hedging instrument	Fair value – hedging instrument	(9)	(9)
Borrowings and loans	Amortised cost	Amortised cost	(2,727)	(2,714)
Trade and other payables	Amortised cost	Amortised cost	(528)	(528)
Total financial liabilities			(3,264)	(3,251)

As part of the refinancing of existing debt, in prior years the Group performed a modification of borrowings, which is treated as a non-substantial modification under IFRS 9 which does not result in an extinguishment of debt.

The existing borrowings and loans are not derecognised, but the carrying value is adjusted. Under IAS 39, modifications were accounted for by discounting the remaining cash flows of the modified debt at a revised effective interest rate. Under IFRS 9, remaining cash flows should be discounted at the original effective interest rate, leading to an immediate gain or loss being recognised in the income statement. On transition to IFRS 9, using the original effective interest rate, the new carrying value of the borrowings was £13m lower than the old carrying value as a result of the lower interest rates on the refinanced debt. This gain was recognised as a decrease in the opening balance of borrowings and loans and an increase in opening retained earnings at 1 February 2018.

The adoption of IFRS 9 has resulted in a taxable gain of £13m, less the associated £2m of tax, being posted to reserves. As the restatement is taxable in the year of change the £2m is represented in the reserves movement as a deferred tax charge.

Impairment of financial assets

From 1 February 2018, the Group implemented an expected credit loss impairment model for financial assets. For trade receivables, our calculation methodology has been updated to consider expected losses based on their ageing profile. The adoption of the expected loss approach has not resulted in any material change in impairment provision for any financial asset.

Hedge accounting

The Group applied the hedge accounting requirements of IFRS 9 prospectively. At the date of initial application all of the Group's existing hedging relationships were eligible to be treated as continuing hedge relationships.

Transition

Changes in accounting policies resulting from adoption of IFRS 9 have been applied retrospectively, except as described below.

- > The Group has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 February 2018. Accordingly, the information presented for the prior period does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.
- > The determination of the business model assessment within which a financial asset is held has been made on the basis of the facts and circumstances that existed at the date of initial application.
- > If an investment in a financial asset had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.
- > Changes to hedge accounting policies have been applied prospectively.
- > All hedging relationships designated under IAS 39 at 31 January 2018 met the criteria for hedge accounting under IFRS 9 at 1 February 2018 and are therefore regarded as continuing hedging relationships.

IFRS 15 Revenue from Contracts with Customers

On 1 February 2018, the Group adopted IFRS 15 'Revenue from Contracts with Customers'. The Group has not restated comparative information for prior periods.

There have been no changes to the measurement of revenue as a result of this standard. However, additional disclosures have been required in the form of disaggregation of our different revenue streams. Please see note 2 where this disaggregation of revenue has been presented.

The Group has taken advantage of the practical expedient in paragraph 63 of IFRS 15 in relation to its contracts which contain a significant financing component where customers choose to pay by instalments.

Except for IFRS 9 and IFRS 15, 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 2019 but have not been applied by the Group in these financial statements. These are set out below (effective dates are EU effective dates):

- > IFRS 16 Leases (effective date 1 January 2019). Significant impact on the financial statements expected, see below for details on effect of adoption.
- > IFRIC 23 Uncertainty over Income Tax Treatments (effective date 1 January 2019).
- > Amendments to IFRS 9: Prepayment Features with Negative Compensation (effective date 1 January 2019).
- > IFRS 17 Insurance Contracts (effective date to be confirmed).
- > Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (effective date to be confirmed).
- > Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (effective date to be confirmed).
- > Amendments to References to the Conceptual Framework in IFRS Standards (effective date to be confirmed).
- > Annual Improvements to IFRS Standards 2015-2017 Cycle (effective date to be confirmed).

The Group did not identify any new accounting standards coming into effect in the financial year ending 31 January 2020 with an expected material impact on the financial statements, except for IFRS 16 for which the impact is explained below.

IFRS 16 Leases

Management expects the adoption of IFRS 16 to have a significant impact on the Group due to the number of property leases. The Group expects to adopt IFRS 16 from 1 February 2019 and will apply the standard retrospectively, with the cumulative impact of initially applying the standard recognised at 1 February 2019.

The initial impact assessment indicates that the adoption of IFRS 16 will result in:

- > an additional finance lease liability of c.£30m
- > a tangible fixed asset of £20m – £30m (after adjusting for forecast onerous lease provisions and any rent-free accrual at 1 February 2019)

increase in Trading EBITDA of c.1% in FY20, representing rental expense which will now reduce the lease liability rather than being charged to the income statement additional depreciation and interest expense of c.£4m in FY20

This impact assessment is based on current estimates of discount rate and also current expectations of the property portfolio at 1 February 2019. IFRS 16 requires lease liabilities to be discounted using the incremental borrowing rate on the date of initial application.

36 Assets and liabilities classified as held for sale

At the year end, AA Media Limited was held for sale, see note 37.

The assets classified as held for sale were:

	2019 £m	2018 £m
Inventories	2	–
Trade receivables	4	–
	6	–

The liabilities classified as held for sale were:

	2019 £m	2018 £m
Other taxes and social security costs	1	–
Accruals	4	–
	5	–

37 Events after the reporting period

On 1 February 2019, the Group completed the purchase of the entire share capital of Prestige Motor Care Holdings Limited and its three wholly owned subsidiaries Prestige Fleet Servicing Limited, Prestige Car Servicing Limited and Prestige Motor Care Limited for cash consideration of £11m.

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

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

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

Company statement of financial position

as at 31 January

	Notes	2019 £m	2018 £m
Non-current assets			
Investments in subsidiaries	2	822	818
Investments in joint ventures	3	–	2
		822	820
Current assets			
Trade and other receivables	4	11	19
Cash and cash equivalents	5	68	79
		79	98
Total assets		901	918
Current liabilities			
Trade and other payables	6	(1)	(9)
		(1)	(9)
Total liabilities		(1)	(9)
Net assets		900	909
Equity			
Called up share capital	7	1	1
Share premium		408	406
Own shares		(31)	(29)
Retained earnings		522	531
Total equity attributable to equity holders of the parent		900	909

The loss for the financial year of the Company is £1m (2018: profit of £75m).

As at 31 January 2019, the Company had distributable reserves of £522m (2018: £531m).

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

Simon Breakwell
Chief Executive Officer

Martin Clarke
Chief Financial Officer

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

Company statement of changes in equity

For the year ended 31 January

	Share capital £m	Share premium £m	Own shares £m	Retained earnings £m	Total £m
At 31 January 2017	1	403	(26)	512	890
Profit for the year	–	–	–	75	75
Dividends	–	–	–	(56)	(56)
Issue of share capital	–	3	–	–	3
Purchase of own shares	–	–	(3)	–	(3)
At 31 January 2018	1	406	(29)	531	909
Loss for the year	–	–	–	(1)	(1)
Dividends	–	–	–	(12)	(12)
Issue of share capital	–	2	–	–	2
Purchase of own shares	–	–	(2)	–	(2)
Share-based payments	–	–	–	4	4
At 31 January 2019	1	408	(31)	522	900

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

Notes to the company financial statements

1 Authorisation of financial statements and Company accounting policies

1.1 Authorisation of financial statements

AA plc (the 'Company') is a public limited company incorporated and domiciled in England and Wales. The Company's ordinary shares are traded on the London Stock Exchange.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The financial statements are prepared under the historical cost convention 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 2019. 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'

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.

b) Investments in subsidiaries and joint ventures

Investments in subsidiaries and joint ventures are held at cost less impairment.

The carrying amounts of the Company's assets 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 fixed assets 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.

Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

c) 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 flows based on the latest strategic plan.

We have performed a sensitivity analysis and determined that when using discounted future cash flows or a price multiple approach, no impairment would be required. The key judgements in this sensitivity analysis are around the growth assumptions used for the future cash flows and the price multiples applied. To support our strategic plan, we have invested in new products and new ways of working which will drive growth in revenue and profits and provide longer term stability. Management do not foresee any significant changes to their impairment assessment in the next 12 months.

2 Investments in subsidiaries

	2019 £m	2018 £m
At 1 February	818	818
Charge for the share incentive schemes	4	—
Additions	—	4
Disposals	—	(2)
Share buyback	—	(2)
At 31 January	822	818

In the year ended 31 January 2019, there was an increase in investments in subsidiaries of £4m (2018: £nil) relating to the fair value of share-based payments granted. Details are provided in note 34 of the Group financial statements.

3 Investments in joint ventures

	2019 £m	2018 £m
At 1 February	2	4
Disposals	(2)	—
Impairment	—	(2)
At 31 January	—	2

On 29 June 2015, the Company invested £4m in a 49% share of a joint venture with TVS Automobile Solutions, one of the largest players in the Indian automotive market. The Company sold its investment in the joint venture with TVS Automobile Associations on 30 March 2018 for cash consideration of £2m, having impaired the investment to the net realisable value of £2m as at 31 January 2018.

4 Trade and other receivables

	2019 £m	2018 £m
Amounts receivable from subsidiary undertakings	11	19
	11	19

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

5 Cash and cash equivalents

	2019 £m	2018 £m
Cash at bank and in hand	68	79
	68	79

6 Trade and other payables

	2019 £m	2018 £m
Amounts owed to subsidiary undertakings	—	8
Accruals	1	1
	1	9

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

7 Called up share capital

	2019 £m	2018 £m
Allotted, called up and fully paid		
613,221,434 (2018: 610,807,568) ordinary shares of £0.001 each	1	1
	1	1

The voting rights of the holders of all ordinary shares are the same and all ordinary shares rank pari passu on a winding up. The Company has no authorised ordinary share capital.

The movement in the number of shares in the current year is in relation to the matching shares for the Employee Share Incentive Plans (see Group financial statements – note 34 for further information on these shares).

The Company has 60 million MVP shares in issue (see Group financial statements – note 34 for further information on these shares).

8 Subsidiary undertakings

All subsidiaries are wholly owned (except where stated) and incorporated and registered where stated below. Except where otherwise stated, the share capital of each subsidiary consists of only ordinary shares.

All subsidiaries are consolidated in the Group financial statements.

The principal subsidiary undertakings of the Company at 31 January 2019 are:

Name	Country
AA Acquisition Co Limited ²	United Kingdom
AA Bond Co Limited ³	Jersey
AA Corporation Limited ^{2,6}	United Kingdom
AA Financial Services Limited ²	United Kingdom
AA Intermediate Co Limited ²	United Kingdom
AA Media Limited ²	United Kingdom
AA Mid Co Limited ^{1,2}	United Kingdom
AA Reinsurance Company Limited ^{1,4}	Guernsey
AA Senior Co Limited ²	United Kingdom
AA The Driving School Agency Limited ²	United Kingdom
AA Underwriting Insurance Company Limited ⁵	Gibraltar
Automobile Association Developments Limited ²	United Kingdom
Automobile Association Insurance Services Limited ²	United Kingdom
Driveteck (UK) Limited ²	United Kingdom
Used Car Sites Limited ²	United Kingdom

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

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

3 Company registered office: 22 Greenville Street, St Helier, Jersey, JE4 8PX.

4 Company registered office: Heritage Hall, Le Marchant Street, St Peter Port, GY1 4JH, Guernsey.

5 Company registered office: First Floor, Grand Ocean Plaza, Ocean Village, Gibraltar.

6 AA Corporation Limited has ordinary and redeemable preference shares.

The other subsidiary undertakings of the Company at 31 January 2019 are:

Name	Country
A.A. Pensions Trustees Limited ²	United Kingdom
AA Brand Management Limited ²	United Kingdom
AA Garage Services Limited ²	United Kingdom
AA Insurance Holdings Limited ^{1, 2}	United Kingdom
AA Ireland Pension Trustees DAC ³	Ireland
AA Pension Funding GP Limited ⁴	United Kingdom
AA Pension Funding LP ^{4,7}	United Kingdom
AA Technical Solutions Limited ²	United Kingdom
AA Underwriting Limited ²	United Kingdom
Automobile Association Holdings Limited ^{2,8}	United Kingdom
Automobile Association Insurance Services Holdings Limited ²	United Kingdom
Automobile Association Protection and Investment Planning Limited ²	United Kingdom
Automobile Association Services Limited ^{2,9}	United Kingdom
Automobile Association Underwriting Services Limited ²	United Kingdom
Breakdown Assistance Services Limited ⁶	United Kingdom
Breakdown Hero Limited ⁶	United Kingdom
Drakefield Holdings Limited ^{2,10}	United Kingdom
Drakefield Insurance Services Limited ²	United Kingdom
Intelligent Data Systems (UK) Limited ²	United Kingdom
Longacre Claims Limited (77% interest held) ^{2,11}	United Kingdom
Personal Insurance Mortgages and Savings Limited ²	United Kingdom
The Automobile Association Limited ⁵	Jersey

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

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

3 Company registered office: 6th Floor, South Bank House, Barrow Street, Dublin 4, Ireland.

4 Company registered office: 50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, Scotland.

5 Company registered office: 22 Greenville Street, St Helier, Jersey, JE4 8PX.

6 Company registered office: 90 Long Acre, London, WC2E 9RA, England.

7 AA Pension Funding LP is a limited partnership.

8 Automobile Association Holdings Limited has ordinary and deferred redeemable non-voting special dividend shares.

9 Automobile Association Services Limited is limited by guarantee.

10 Drakefield Holdings Limited has A and B ordinary shares.

11 Longacre Claims Limited has ordinary shares and B shares.

9 Auditor's remuneration

The fee for the audit of these financial statements was £0.2m (2018: £0.2m).

10 Employee costs

The Company had no employees or employee costs in the current or prior year. However, the Company has incurred costs in respect of the NEDs of £1m (2018: £1m).

Shareholder information

AA plc

Company number: 5149111

Registered office

Fanum House, Basing View, Basingstoke
Hampshire RG21 4EA

Telephone: 0344 209 0754

Financial Calendar 2019/2020

2018/19 final dividend

9 May: Ex-dividend date

10 May: Record date

24 May: Last day to elect for Dividend Re-Investment Programme (DRIP)

2019/20 interim dividend

3 October: Ex-dividend date

4 October: Record date

18 October: Last day to elect for DRIP

8 November: Dividend payment date/DRIP purchase

13 November: DRIP documents posted

Share price information

The Company's ordinary shares are listed on the London Stock Exchange. Share price information can be found on the website, www.theaapl.com.

ISIN Number: GB00BMSKPJ95

SEDOL Number: BMSKRPJ9

Legal Entity Identifier: 213800DTPE4O5OI17349

Advisers

Corporate brokers

Liberum Capital, Ropemaker Place, Level 12, 25 Ropemaker Street, London, EC2Y 9LY

Citi, 33 Canada Square Canary Wharf London E14 5LB

Peel Hunt, Moor House, 120 London Wall, London EC2Y 5ET

Solicitors

Freshfields Bruckhaus Deringer LLP, 65 Fleet Street, London EC4Y 1HS

Proskauer Rose (UK) LLP, 110 Bishopsgate, London EC2N 4AY

Auditors

PricewaterhouseCoopers LLP, 1 Embankment Place, London WC2N 6RH

Registrar

Enquiries and notifications concerning dividends, share certificates, transfers and address changes should be sent to the registrar:

Equiniti

Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA

0333 207 6538 (from outside the UK: +44 121 415 0999). Lines are open 8.30am to 5.30pm, Monday to Friday (excluding bank holidays in England and Wales).

You can access and maintain your AA plc shareholding online through our share portal at www.shareview.co.uk.

Financial public relations

Finsbury, The Adelphi, 1-11 John Adam Street, London WC2N 6HT

E-communications

Shareholders can choose to receive all Company communications electronically. This environmentally friendly way of receiving information has a number of advantages, including quicker delivery of documents and the ability to access reports and results online wherever you are.

To register, please visit the share portal at www.shareview.co.uk.

Dividend reinvestment plan (DRIP)

The Company offers a DRIP to shareholders as a cost-efficient way of increasing their shareholding in the Company. Should you wish to participate in the DRIP, please contact the registrar to request a mandate form and an explanatory booklet. Your completed mandate form must be received by the registrar no later than 24 May 2019 if you wish your final dividend for the year to be reinvested to buy additional shares.

Keep your personal details up to date

Please remember to tell our registrar, Equiniti, if you move or need to update your bank or building society details.

If you hold 2,500 shares or fewer, you can update details quickly and easily over the telephone using the Equiniti contact details above. If you hold more than 2,500 shares you will need to write to Equiniti.

Managing your shares online

You can go online to manage your shareholding by registering for Shareview, the online portal, where you can:

1. Receive the latest updates from the AA direct to your email
2. Update your address and bank details online
3. Vote in advance of general meetings

To register for Shareview, please follow these three easy steps:

1. Go to www.shareview.co.uk
2. Register for electronic communication by following the instructions on screen
3. You will then be sent an activation code in the post the next working day

Identity theft

Identity theft is on the increase. Criminals may steal your personal information, putting your AA plc shareholding at risk.

Tips for protecting your shares:

- > ensure all your certificates are kept in a safe place or hold your shares electronically in CREST via a nominee
- > keep all correspondence from the registrar that shows your shareholder investor code in a safe place, or destroy your correspondence by shredding it
- > if you change address, inform the registrar in writing or via our share portal at www.shareview.co.uk
- > know when dividends are paid and consider having your dividend paid directly into your bank account. This will reduce the risk of the cheque being intercepted or lost in the post. If you change your bank account, inform the registrar of the details of your new account. You can do this by post or online using our share portal at www.shareview.co.uk. Respond to any letters the registrar sends you about this
- > if you receive a letter from the registrar regarding a change of address or a dividend instruction, but have not recently moved or requested a change to how you receive your dividends, please contact the registrar immediately using the details on the previous page as you may have been a victim of identity theft
- > if you are buying or selling shares, only deal with registered brokers

Share fraud warning

Remember: if it sounds too good to be true, it probably is.

You should be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports.

In recent years, many companies have become aware that their shareholders have received unsolicited telephone calls or correspondence concerning investment matters. These are typically from overseas-based "brokers" working in "boiler rooms" who target UK shareholders, offering to sell them what often turn out to be worthless or high-risk shares in US or UK investments. These brokers can be very persistent, extremely persuasive and use sophisticated means to approach and convince investors. The Financial Conduct Authority (FCA) has found that even experienced investors have been caught out by share fraud. It also discovered that victims of boiler rooms lose an average of £20,000 to these scams, with as much as £200 million being lost in the UK each year.

If you receive any unsolicited investment advice, you should follow the steps below:

- > avoid getting into a conversation, note the name of the person and firm contacting you and then end the call
- > before getting involved, check that the firm is properly authorised by the FCA via its register at www.fca.org.uk/register, or call 0800 111 6768
- > search the list of unauthorised firms to avoid: www.fca.org.uk/scams
- > think about getting independent financial and professional advice before you hand over any money. Details of any share dealing facilities that the Company endorses will be included in Company mailings

Protecting your investment

We strongly advise you to deal only with financial services firms that are authorised by the FCA. Keep in mind that authorised firms are unlikely to contact you out of the blue with an offer to buy or sell shares. If you deal with an unauthorised firm, you would not be eligible to receive payment under the Financial Services Compensation Scheme.

For more information, visit the FCA website: www.fca.org.uk/scams.

Reporting a scam

If you suspect you have been approached about an investment scam, contact the FCA using the share fraud reporting form: www.fca.org.uk/scams. You can also call the FCA Consumer Helpline on 0800 111 6768. Reporting unauthorised organisations who are targeting, or have targeted, UK investors, means the FCA can maintain an up-to-date list and appropriate action can be considered.

If you have already paid money to share fraudsters you should contact Action Fraud, the UK's national reporting centre for fraud and internet crime, on 0300 123 2040 or online at www.actionfraud.police.uk. The service is run by the City of London Police working alongside the National Fraud Intelligence Bureau.

Shareholder queries and information

Financial information about the Company, including the Annual Report, regulatory announcements and corporate governance information is available on our website: www.theaapl.com.

Alternatively, please contact us at investorrelations@theaa.com.

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Print **Pureprint Group**

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