AA FINANCIAL SERVICES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JANUARY 2019

Registered number: 00912211

AA FINANCIAL SERVICES LIMITED

FOR THE YEAR ENDED 31 JANUARY 2019

STRATEGIC REPORT

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

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The Company is a wholly owned subsidiary of Automobile Association Insurance Services Holdings Limited.

The Company is regulated by the Financial Conduct Authority (FCA). The principal activity of the Company is the provision of financial intermediation services for saving accounts, loans and credit cards.

As shown in the Company's income statement, the Company's revenue decreased by 28.9% to £5,704,000 (2018: £8,022,000) during the current year due to the sales of new credit cards being stopped. Operating profit for the year increased by 77.5% to £1,273,000 (2018: £717,000). After taxation, a profit of £1,031,000 (2018: £579,000) has been transferred to reserves. The key drivers for this increase in profit were a change in product mix due to the cessation of credit card sales.

The statement of financial position shows the Company's financial position at the year end. Net assets increased by 4.8% to £22,500,000 (2018: £21,469,000).

For decision making and internal performance management, management's key performance metric is Trading EBITDA, being earnings before tax, exceptional items and amortisation (see note 3). Trading EBITDA increased by 70.8% to £1,373,000 (2018: £804,000) during the current year.

The directors are pleased with the performance of the Company in the year. There are currently no plans to alter the principal activity of the Company in the future.

DIVIDENDS

The Company has not paid a dividend in the year (2018: £nil).

RISK MANAGEMENT FRAMEWORK

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

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

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

Unable to maintain outstanding service and market share

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

RISK MANAGEMENT FRAMEWORK (continued)

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

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

IT transformation is not completed successfully

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

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

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

Unable to manage our debt

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

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

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

ON BEHALF OF THE BOARD

L D MILES
DIRECTOR

31st OCTOBER 2019

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

Registered number: 00912211

FOR THE YEAR ENDED 31 JANUARY 2019

DIRECTORS' REPORT

DIRECTORS

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

M S Lloyd	(resigned 8 June 2018)
G L Price	(appointed 30 June 2017, resigned 31 August 2018)
J E Fairclough	(appointed 19 July 2019)
S Breakwell	(appointed 27 June 2019)
D Searle	(appointed 8 June 2018, resigned 1 August 2019)
L D Miles	(appointed 20 July 2018)

COMPANY SECRETARY

M F Millar	(resigned 17 April 2018)
C M Free	(appointed 17 April 2018, resigned 30 January 2019)
N Hoosen	(appointed 30 January 2019)

DIRECTORS' INDEMNITY

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

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

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

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

FOR THE YEAR ENDED 31 JANUARY 2019

DIRECTORS' REPORT (continued)

DIRECTORS' CONFIRMATIONS

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

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

GOING CONCERN

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

The directors believe that the Company has adequate financial resources due to the available cash resources of the AA plc Group which can be drawn upon and the Company's own net asset position. The directors believe that the Company is well placed to manage its business risks successfully using the risk management framework described in the Strategic Report and that the residual risks being taken by the Company are commensurate with its financial resources.

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

AUDITORS

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

FUTURE DEVELOPMENTS

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

DIVIDENDS

The Directors do not recommend the payment of a dividend for the year (2018: £nil).

ON BEHALF OF THE BOARD

L D MILES
DIRECTOR

31ST OCTOBER 2019

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

Registered number: 00912211

Independent auditors' report to the members of AA Financial Services Limited

Report on the audit of the financial statements

Opinion

In our opinion, AA Financial Services Limited's financial statements:

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

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

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements set out on page 3, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

HViney

Helen Viney (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton
31 October 2019

INCOME STATEMENT

FOR THE YEAR ENDED 31 JANUARY

	Notes	2019	2018 Restated*
		£'000	£'000
REVENUE	2.3c	5,704	8,022
Cost of sales		(4,331)	(7,218)
GROSS PROFIT		1,373	804
Administrative expenses		(100)	(87)
OPERATING PROFIT AND PROFIT BEFORE TAX	4	1,273	717
Tax on profit	8	(242)	(138)
PROFIT FOR THE FINANCIAL YEAR		1,031	579

*The income statement for the 2018 financial year has been restated to more accurately present direct costs relating to sales activities within cost of sales, which resulted in £7,215k being reclassified from administrative expenses to cost of sales.

All income and expenditure arise from continuing operations.

There is no other comprehensive income or expenditure other than that accounted for in the income statement, therefore no separate statement of comprehensive income is presented.

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

STATEMENT OF FINANCIAL POSITION

AS AT 31 JANUARY

	Notes	2019 £'000	2018 £'000
NON-CURRENT ASSETS			
Deferred tax asset	**9**	**3**	-
Intangible assets	**10**	**114**	153
		117	153
CURRENT ASSETS			
Trade and other receivables	**11**	**23,310**	23,039
TOTAL ASSETS		**23,427**	23,192
CURRENT LIABILITIES			
Trade and other payables	**12**	**(927)**	(1,723)
TOTAL LIABILITIES		**(927)**	(1,723)
NET ASSETS		**22,500**	21,469
EQUITY			
Called up share capital	**13**	**2,000**	2,000
Retained earnings		**20,500**	19,469
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS		**22,500**	21,469

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

L D MILES
DIRECTOR

31st OCTOBER 2019

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 JANUARY

	Share capital £'000	Retained earnings £'000	Total £'000
At 1 February 2017	2,000	18,890	20,890
Profit for the year	-	579	579
At 31 January 2018	**2,000**	**19,469**	**21,469**
Profit for the year	-	1,031	1,031
At 31 January 2019	**2,000**	**20,500**	**22,500**

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

NOTES TO THE FINANCIAL STATEMENTS

1 PRESENTATION OF FINANCIAL STATEMENTS

AA Financial Services Limited is a private company limited by shares, incorporated and domiciled in England and Wales.

The financial statements are prepared on a going concern basis.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS101) and the Companies Act 2006. The financial statements are prepared under the historical cost convention.

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

2 ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

- IAS 1 paragraphs 10(d) and 10(f),
- IAS 1 paragraph 16 (statement of compliance with all IFRS),
- IAS 1 paragraph 38 (comparative information in respect of Intangible Assets),
- IAS 1 paragraph 38A (requirement for minimum of two primary statements, including cash flow statements),
- IAS 1 paragraph 111 (cash flow statement information),
- IAS 1 paragraphs 134-136 (capital management disclosures),
- IAS 7 'Statement of cash flows',
- IFRS 7 'Financial Instruments Disclosures'
- IAS 8 paragraphs 30 and 31,
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group,
- IFRS 15 disclosure requirements in paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129
- IAS 24 'Related party disclosures' (key management compensation).

2.2 Critical accounting estimates and judgements

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

Management have exercised judgement in applying the Company's accounting policies and in making critical estimates. The underlying assumptions on which these judgements are based, are reviewed on an on-going basis and include the basis for accruing revenue.

The principal estimate and assumption that has a risk of causing an adjustment to the carrying amounts of assets and liabilities within the next financial period is in respect of contract assets.

Management accrue income each month based on a best estimate of the number of products sold. This is then aligned to the actual number of products sold in the following month.

2.3 Significant accounting policies

a) Intangible assets

Intangible assets which are acquired separately are stated at cost.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and impairment losses. Intangible assets with finite lives are amortised over the useful economic life.

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

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

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

b) Taxation

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

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

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

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

c) Revenue recognition

Revenue represents commission income receivable from the sale and related marketing and administrative services of financial products, excluding value added tax and trade discounts. Revenue is recognised on a point in time basis at the point of the provision of the service. This includes work which has not yet been fully invoiced, provided that it is considered to be fully recoverable. All revenue originates in the UK. Revenue by destination is not materially different from revenue by origin.

The revenue recognition accounting policy was reviewed as part of the transition from IAS 18 to IFRS 15 and the Company determined that no change was needed.

d) Contract Liabilities

Contract liabilities are the payment of services that the Company has received from its customers even before such services have been performed. Such a payment has been received by the Company but not yet earned. Thus, the Company reports contract liabilities as a liability rather than an asset till the time it actually delivers the services.

2.3 Significant accounting policies (continued)

e) Exceptional items

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

f) Financial assets and financial liabilities

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

Trade and other receivables

Trade and other 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 Company applies the IFRS 9 simplified approach to measuring expected credit losses (ECLs) which uses a lifetime expected loss allowance for all trade receivables and contract assets. Contract assets relate to unbilled work in progress and have substantially the same risk characteristics as trade receivables for the same type of contracts.

Trade and other payables

Trade and other payables are not interest bearing and are recognised at fair value and are subsequently held at amortised cost using the effective interest method.

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

g) Investments in group undertakings

Investments in group undertakings are valued individually at the lower of cost less any provision for impairment or net realisable value. Income from investments is recognised in the Income Statement when it is receivable.

3 ADJUSTED PERFORMANCE MEASURES

Management reviews the Company's results and performance both on a statutory and non-GAAP (non-statutory) basis. The Company's adjusted performance measure of Trading EBITDA is a non-GAAP (non-statutory) financial measure and is included in these accounts as it is a key financial measure used by management to evaluate performance of business segments. The measure enables management to more easily and consistently track the underlying operational performance of the Company.

Trading EBITDA is profit after tax on a continuing basis as reported, adjusted for amortisation, exceptional operating items and tax expense.

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 £'000	2018 £'000
Trading EBITDA		**1,373**	804
Amortisation	10	**(39)**	(25)
Exceptional operating items	5	**(61)**	(62)
Operating profit	4	**1,273**	717

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 ADJUSTED PERFORMANCE MEASURES (continued)

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

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

4 OPERATING PROFIT

Operating profit is stated after charging:

	2019	2018
	£'000	£'000
Amortisation of intangible fixed assets	**39**	25
Exceptional items	**61**	62

Auditors' remuneration in respect of the audit of the Company's financial statements for the year ended 31 January 2019 amounted to £42,000 (2018: £54,000). The Company's auditors provided no services to the Company other than the statutory audit during both the current and prior year.

5 EXCEPTIONAL OPERATING ITEMS

	2019	2018
	£'000	£'000
Exceptional costs	**61**	62

Exceptional items in the current year were related to £61,000 recharge of group exceptional costs (2018: £62,000).

6 EMPLOYEE COSTS

Employee costs during the year were as follows:

	2019	2018
	£'000	£'000
Wages and salaries	**609**	710
Social security costs	**85**	88
Other pension costs	**119**	78
	813	876

Employee costs relate to those recharged from Automobile Association Developments Limited. The average number of employees directly employed during the year was nil (2018: nil). The average number of employees for whose services the Company was charged during the year was 9 (2018: 10).

7 DIRECTORS' REMUNERATION

	2019 £'000	2018 £'000
Aggregate remuneration in respect of qualifying services	**410**	634
Compensation for loss of office	**75**	-
	485	634
The amounts paid in respect of the highest paid director were as follows:		
Remuneration	**94**	457
Accrued pension at the end of the year	**-**	4
Compensation for loss of office	**60**	-
	154	461

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

Retirement benefits are accruing for 2 (2018: 2) directors under a defined benefit scheme and nil (2018: £nil) under a money purchase scheme.

8 TAX EXPENSE

The major components of the income tax expense are:

	2019 £'000	2018 £'000
Current tax:		
- Current tax on income in the year	**245**	137
- Adjustments in respect of prior periods	**-**	1
Total current tax charge	**245**	138
Deferred tax:		
- Origination and reversal of temporary differences	**(3)**	-
Total deferred tax credit	**(3)**	-
Total tax expense	**242**	138

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

	2019 £'000	2018 £'000
Profit before tax	**1,273**	717
Tax at rate of 19.00% (2018: 19.16%)	**242**	137
Effects of:		
Adjustments to tax charge in respect of previous years	**-**	1
Income tax expense reported in the income statement	**242**	138

9 DEFERRED TAX ASSETS

Deferred tax by type of temporary difference:

	Statement of financial position		Income statement	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Fixed asset temporary differences	**1**	-	**(1)**	-
Other short-term temporary differences	**2**	-	**(2)**	-
Deferred tax asset	**3**	-	**(3)**	-

	£'000
Deferred tax asset as at 1 February 2018	-
Tax credit recognised in the income statement	3
Deferred tax asset as at 31 January 2019	**3**

The UK corporation tax rate is set to reduce from 19% to 17% on 1 April 2020. These rates have been enacted at the statement of financial position date and used to calculate the deferred tax asset.

10 INTANGIBLE ASSETS

	Software £'000
Cost	
At 31 January 2018 and at 31 January 2019	**178**
Accumulated amortisation	
At 1 February 2018	25
Charge for year	39
At 31 January 2019	**64**
Net book value	
At 31 January 2019	**114**
At 31 January 2018	153

11 TRADE AND OTHER RECEIVABLES

	2019	2018
	£'000	£'000
Trade receivables	**412**	3,217
Contract Assets	**656**	474
Amounts owed by group undertakings	**22,143**	19,239
Prepayments	**94**	103
Other receivables	**5**	6
	23,310	23,039

Amounts owed by group undertakings within one year are unsecured, are repayable on demand and bear no interest.

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 TRADE AND OTHER PAYABLES

	2019 £'000	2018 £'000
Other taxation and social security	15	47
Trade payables	125	-
Accruals	394	1,407
Contract liabilities	-	125
Current tax payable	382	137
Other payables	11	7
	927	1,723

13 CALLED UP SHARE CAPITAL

Allotted, called up and fully paid	2019 £'000	2018 £'000
2,000,000 (2018: 2,000,000) ordinary shares of £1 each	2,000	2,000

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

14 GUARANTEES AND COMMITMENTS

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

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

15 ULTIMATE PARENT UNDERTAKING AND ULTIMATE CONTROLLING PARTY

The Company is a wholly owned subsidiary of Automobile Association Insurance Services Holdings Limited, a company registered in England and Wales. AA plc is the ultimate controlling party and parent undertaking.

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