AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JANUARY 2018

Registered number: 02414212

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

FOR THE YEAR ENDED 31 JANUARY 2018

STRATEGIC REPORT

The directors present their Annual Report and Financial Statements of Automobile Association Insurance Services Limited ("the Company") for the year ended 31 January 2018.

PRINCIPAL ACTIVITY, REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

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

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

As shown in the Company's Income Statement, the Company's trading revenue[1] decreased slightly to £277.7m (2017: £277.9m) during the current year. For decision making and internal performance management, management's key performance metric is earnings before exceptionals, interest, tax, depreciation and amortisation (Trading EBITDA[2]). Trading EBITDA[2] decreased by 0.2% to £160.9m (2017: £161.3m) during the current year.

Operating profit increased by 7% to £158.8m (2017: £148.9m) during the current year. Profit before taxation increased by 7% to £158.5m (2017: £148.4m) over the same period.

During the year under review, the net solvency capital of the Company for regulatory purposes, represented by net assets, increased to £302.1m (2017: £274.0m) due to the payment of a dividend of £100.0m (2017: £90.0m) offset by £128.1m (2017: £118.7m) profit for the year.

The directors are pleased with the performance of the Company in the year and expect the Company to continue to meet solvency requirements set by the FCA.

DIVIDENDS

A dividend of £100.0m was paid during the year (2017: £90.0m).

RISK MANAGEMENT FRAMEWORK

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

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

The principal risks & certainties 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.

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.

RISK MANAGEMENT FRAMEWORK (continued)

Price comparison sites further damage the insurance broker model

The consumers' use of price comparison sites may continue to transfer value from the insurance broking business.

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.

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.

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.

BY ORDER OF THE BOARD

J CONNOR
DIRECTOR
13 June 2018

The following definitions apply throughout the report:

[1] Trading Revenue is revenue excluding exceptional revenue items.

[2] Trading EBITDA is profit after tax as reported adjusted for amortisation, depreciation, taxation, exceptional items, finance income and finance costs and better reflects the Company's underlying performance.

FOR THE YEAR ENDED 31 JANUARY 2018

DIRECTORS' REPORT

DIRECTORS

The directors who held office during the year were as follows:

M A Clarke	
J Connor	
M S Lloyd	(resigned 25 May 2018)
C E Riley	
J C Roe	
D W Smith	
O J Kunc	(resigned 31 May 2017)

Company secretary

M F Millar	(resigned 17 April 2018)
M A Clarke	(appointed 9 May 2018)

DIRECTOR'S 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

The directors are responsible for preparing the Annual Report and 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 Reduced Disclosure Framework (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 Company and the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 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. They 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.

GOING CONCERN

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

The directors believe that the Company has adequate financial resources due to the Company's own net current asset position. The directors believe that the Company is well placed to manage its business risks successfully using the risk management framework described in the strategic report and that the residual risks being taken by the Company are commensurate with its financial resources.

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

DISCLOSURE OF INFORMATION TO AUDITOR

Each current director has made enquiries of their fellow director and the Company's auditor and taken all the steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Relevant audit information is that information needed by the auditor in connection with preparing its report. So far as each director approving this report is aware, and based on the above steps, there is no relevant audit information of which the auditor is unaware.

Pursuant to the AA plc Group audit tender process in 2017, Ernst & Young LLP will resign as the Company's auditor following completion of their statutory and regulatory audits for the financial year ended 31 January 2018, and PriceWaterhouseCoopers LLP will be appointed as auditor of the Company for the financial year ending 31 January 2019 in their place.

BY ORDER OF THE BOARD

J CONNOR
DIRECTOR
13 June 2018

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

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

Opinion

We have audited the financial statements of Automobile Association Insurance Services Limited for the year ended 31 January 2018 which comprise the Income Statement, the Statement of Financial Position, the Statement of Changes in Equity and the related notes1 to 21, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 January 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the 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.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we **c**onclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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.

Auditor's 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 auditor's 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 Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Neeta Ramudaram (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

14 June 2018

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 JANUARY

	Notes	2018 £m	2017 £m
TRADING REVENUE	**3**	**277.7**	277.9
Exceptional revenue provision	**16**	**0.3**	(1.7)
TOTAL REVENUE		**278.0**	276.2
COST OF SALES		**(6.9)**	(7.0)
GROSS PROFIT		**271.1**	269.2
OPERATING COSTS			
Marketing and administrative expenses		**(112.3)**	(120.3)
OPERATING PROFIT	**4**	**158.8**	148.9
Trading EBITDA		**160.9**	161.3
Amortisation and depreciation	**12, 13**	**(1.9)**	(3.1)
OPERATING PROFIT BEFORE EXCEPTIONAL OPERATING ITEMS		**159.0**	158.2
Exceptional operating items	**5**	**(0.2)**	(9.3)
OPERATING PROFIT		**158.8**	148.9
Income from joint venture	**6**	**-**	0.6
Finance costs	**9**	**(0.3)**	(1.1)
PROFIT BEFORE TAX		**158.5**	148.4
Tax expense	**10**	**(30.4)**	(29.7)
PROFIT FOR THE FINANCIAL YEAR		**128.1**	118.7

All income and expenditure arises from continuing operations.

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

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

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 JANUARY

	Notes	2018 £m	2017 £m
NON-CURRENT ASSETS			
Intangible assets	12	1.3	1.4
Property, plant and equipment	13	9.2	10.2
Deferred consideration	14	3.0	-
Deferred tax asset	11	0.4	0.6
		13.9	12.2
CURRENT ASSETS			
Inventories		-	0.1
Trade and other receivables	14	415.0	396.9
Cash and cash equivalents		7.7	7.1
		422.7	404.1
TOTAL ASSETS		436.6	416.3
CURRENT LIABILITIES			
Trade and other payables	15	(106.5)	(121.6)
Corporation tax		(27.0)	(17.1)
Provisions	16	(0.4)	(2.6)
		(133.9)	(141.3)
NON-CURRENT LIABILITIES			
Finance lease obligations	18	(0.2)	(0.6)
Provisions	16	(0.4)	(0.4)
		(0.6)	(1.0)
TOTAL LIABILITIES		(134.5)	(142.3)
NET ASSETS		302.1	274.0
EQUITY			
Called up share capital	17	19.0	19.0
Retained earnings		283.1	255.0
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS		302.1	274.0

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

J CONNOR
DIRECTOR

13 June 2018

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

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 JANUARY

	Share capital £m	Retained earnings £m	Total £m
At 1 February 2016	19.0	226.3	245.3
Profit for the year	-	118.7	118.7
Dividends paid	-	(90.0)	(90.0)
At 31 January 2017	**19.0**	**255.0**	**274.0**
Profit for the year	-	128.1	128.1
Dividends paid	-	(100.0)	(100.0)
At 31 January 2018	**19.0**	**283.1**	**302.1**

NOTES TO THE FINANCIAL STATEMENTS

1 Presentation of financial statements

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

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

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

2 Accounting policies

2.1 Basis of preparation

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 January 2018.

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

- IAS 1 paragraphs 10(d) and 10(f),
- IAS 1 paragraph 16 (statement of compliance with all IFRS),
- IAS 1 paragraph 38 (comparative information in respect of Property, Plant and Equipment, and Intangible Assets)
- IAS 1 paragraph 38A (requirement for minimum of two primary statements, including cash flow statements),
- IAS 1 paragraph 111 (cash flow statement information),
- IAS 1 paragraphs 134-136 (capital management disclosures),
- IAS 7 'Statement of cash flows',
- IFRS 7 'Financial Instruments Disclosures',
- IAS 8 paragraphs 30 and 31,
- IFRS 13 paragraphs 91 – 99 'Fair Value measurement',
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group,
- IAS 24 'Related party disclosures' (key management compensation).
- s400 Companies Act 2006

2.2 Critical accounting estimates and judgements

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

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

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

2.2 Critical accounting estimates and judgements *(continued)*

Revenue – Administration and arrangement fee (AAF)

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

Contingent consideration

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

2.3 Significant accounting policies

a) Software and development costs

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

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

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

b) Property, plant and equipment

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

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

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

c) Investments in subsidiaries

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

2.3 Significant accounting policies (continued)

d) Investments in joint ventures

Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The assets and liabilities of joint venture are incorporated in these financial statements using the equity method of accounting. Investments in joint ventures are carried in the balance sheet at cost, including direct acquisition costs, as adjusted by post-acquisition changes in the Company's share of the net assets less any impairment losses.

e) Inventories

Inventory is valued at the lower of cost or 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.

f) Revenue

Revenue represents amounts receivable for goods and services provided, excluding value added tax, insurance premium tax and trade discounts.

Refunds issued for goods and services relating to the current year are netted against trading revenue. Refunds for duplicate cover prior to FY17 are shown as exceptional revenue.

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

g) Leasing and hire purchase commitments

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

Rentals payable under operating leases are charged to the Income Statement on a straight-line basis over the lease term.

2.3 Significant accounting policies (continued)

h) Provisions

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

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

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

i) 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 balance sheet 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 balance sheet 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 balance sheet 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.

j) Trade receivables and trade payables

Trade receivables (excluding instalment debtors) and trade payables are not interest bearing and are recognised initially at fair value. Instalment debtors accrue interest on the month end balance. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

k) Cash and cash equivalents

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

l) Exceptional items

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

3 TRADING REVENUE

Trading revenue is revenue on a continuing basis, excluding exceptional revenue.

Revenue represents amounts receivable for goods and services provided, excluding value added tax and trade discounts. Revenue is recognised at point of delivery of goods or on provision of service.

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

4 OPERATING PROFIT

Operating profit is stated after charging:

	2018 £m	2017 £m
Amortisation of owned intangible assets	**0.9**	2.2
Depreciation of owned tangible fixed assets	**0.7**	0.7
Depreciation of leased tangible fixed assets	**0.3**	0.2
Operating lease rentals:		
- Land & Buildings	**-**	0.1

Auditors' remuneration in respect of the audit of the Company's financial statements for the year ended 31 January 2018 amounted to £197,000 (2017: £190,000). The Company's auditor provided no services to the Company other than the annual audit during either the current or prior year.

5 EXCEPTIONAL OPERATING ITEMS

	2018 £m	2017 £m
Duplicate breakdown cover	**0.3**	(1.7)
Other exceptional operating items	**(0.5)**	(7.6)
	(0.2)	(9.3)

Exceptional revenue included £0.3m release of provision for duplicate breakdown cover (2017: a cost of £1.7m). See note 16 for further information.

Other exceptional operating items for the current year included £4.5m restructuring costs, £0.1m release of vacant property provision, £1.7m recharge of group exceptional costs and £5.6m profit on disposal of Consumer Home Emergency Services business, which is part of Home Emergency Services business and does not meet the definition of 'discontinued operation' under IFRS5.

Other exceptional operating items for the year ended 31 January 2017 were £0.3m loss on disposal of fixed assets, £0.2m vacant property provision, £3.1m recharge of group exceptional costs and £4.0m restructuring costs.

6 INCOME FROM SHARES IN GROUP UNDERTAKIINGS

	2018 £m	2017 £m
Dividends from joint venture	-	0.6
	-	0.6

Dividend received from the joint venture in AA Law was £nil (2017: £0.6m).

7 STAFF COSTS

Staff costs during the year were as follows:

	2018 £m	2017 £m
Wages and salaries	**59.5**	59.1
Social security costs	**4.8**	4.7
Other pension costs	**4.3**	3.6
	68.6	67.4

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

The average number of employees directly employed during the year was nil (2017: nil).

8 DIRECTORS' REMUNERATION

	2018 £m	2017 £m
Aggregate remuneration in respect of qualifying services	**1.7**	3.3
Contributions to money purchase schemes	**0.1**	0.2
	1.8	3.5

The amounts paid in respect of the highest paid director were as follows:		
Remuneration	**0.5**	1.3
Contributions to money purchase schemes	**0.1**	0.1
	0.6	1.4

The directors' remuneration cost for C E Riley, D W Smith, M Lloyd and J C Roe for their services as director are borne by the entity.

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

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

Retirement benefits are accruing for 1 (2017: 2) directors under a defined benefit scheme and 2 (2017: 3) under a money purchase scheme.

9 FINANCE COSTS

	2018 £m	2017 £m
Duplicate cover breakdown - interest on refunds (see note 16)	-	0.7
Other interest payable	0.3	0.4
	0.3	1.1

10 TAX EXPENSE

The major components of the income tax expense are:

	2018 £m	2017 £m
Current tax:		
- Current tax on income in the year	30.3	29.9
- Adjustments in respect of prior periods	(0.1)	(0.1)
	30.2	29.8
Deferred tax:		
- Origination and reversal of temporary differences	0.2	(0.1)
	0.2	(0.1)
Total tax expense	30.4	29.7

The current tax includes £20.2m (2017: £12.7m) in respect of payments for group losses.

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

	2018 £m	2017 £m
Profit before tax	158.5	148.4
Tax at rate of 19.2% (2016: 20.0%)	30.4	29.7
Effects of:		
Permanent differences	0.1	-
Rate change	-	0.1
Adjustments to tax charge in respect of previous years	(0.1)	(0.1)
Income tax expense reported in the income statement	30.4	29.7

11 DEFERRED TAXATION

Deferred tax by type of temporary difference:

	Statement of financial position		Income statement	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Decelerated capital allowances	**0.5**	0.7	**0.2**	-
Other short term temporary differences	**0.3**	0.3	**-**	(0.1)
Capital gains rolled over	**(0.4)**	(0.4)	**-**	-
Deferred tax asset	**0.4**	0.6	**0.2**	(0.1)

	£m
Deferred tax asset as at 1 February 2017	0.6
Tax credit recognised in the income statement	(0.2)
Deferred tax asset as at 31 January 2018	**0.4**

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

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

12 INTANGIBLE ASSETS

	Software £m
Cost	
At 1 February 2017	13.6
Addition	0.8
At 31 January 2018	**14.4**
Amortisation	
At 1 February 2017	12.2
Charge for year	0.9
At 31 January 2018	**13.1**
Net book value	
At 31 January 2018	**1.3**
At 31 January 2017	1.4

Within Software £0.7m (2017: £nil) relates to assets under construction that are not amortised. Software additions comprise £0.7m (2017: £nil) in relation to internally developed assets and £0.1m (2017: £nil) in respect of separately acquired assets.

13 PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost			
At 1 February 2017	14.0	7.4	21.4
Additions	-	0.3	0.3
Disposals	-	(0.6)	(0.6)
At 31 January 2018	**14.0**	**7.1**	**21.1**
Depreciation			
At 1 February 2017	6.6	4.6	11.2
Charge for year	0.3	0.7	1.0
Disposals	-	(0.3)	(0.3)
At 31 January 2018	**6.9**	**5.0**	**11.9**
Net book value			
At 31 January 2018	**7.1**	**2.1**	**9.2**
At 31 January 2017	7.6	2.8	10.2

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

	2018 £m	2017 £m
Cost	**0.8**	1.4
Accumulated depreciation	**(0.5)**	(0.3)
Net book value	**0.3**	1.1

14 TRADE AND OTHER RECEIVABLES

	2018 £m	2017 £m
Current		
Trade receivables	**83.4**	81.8
Amounts owed by group undertakings	**325.1**	310.4
Deferred consideration	**3.0**	-
Other receivables	**0.9**	1.3
Prepayments and accrued income	**2.6**	3.4
	415.0	396.9
Non-current		
Deferred consideration	**3.0**	-

Amounts owed by group undertakings all relate to undertakings within the AA Intermediate Co Limited group. The balances are unsecured, have no repayment terms and bear no interest.

Included in trade receivables are amounts of £73.8m (2017: £70.5m) relating to amounts due from insurance broking customers.

14 TRADE AND OTHER RECEIVABLES (continued)

Included within current and non-current assets is £3.0m (2017: £nil) and £3.0m (2017: £nil) respectively relating to deferred consideration following the disposal of the consumer home services business. The consideration is contingent on the policy renewal rate. It is calculated based on the number of policies renewed within 14 months from the sales of the business and the agreed purchase price per policy. Under the disposal agreement, the Company is to transfer all its consumer home services polices to the buyer. If the number of renewed policies at the agreed purchase price exceeds £6.0m, the buyer will pay the additional purchase price to the Company. If it is below £6.0m, the Company will repay the buyer the difference in purchase price.

15 TRADE AND OTHER PAYABLES

	2018 £m	2017 £m
Trade creditors	**70.6**	72.3
Amounts owed to group undertakings	**10.5**	20.1
Accruals and deferred income	**23.4**	27.3
Other taxation and social security	**1.5**	1.3
Other creditors	**0.4**	0.3
Obligations under finance leases and hire purchase contracts (note 18)	**0.1**	0.3
	106.5	121.6

Included in trade creditors are amounts of £64.2m (2017: £72.3m) relating to amounts due to underwriters external to the AA plc group in respect of insurance broking activities.

Included in amounts owed to group undertakings are amounts of £10.5m (2017: £6.8m) relating to amounts due to underwriters within the AA plc group in respect of insurance broking activities.

16 PROVISIONS FOR LIABILITIES

	Other provisions £m	Vacant property provisions £m	Restructuring provisions £m	Duplicate breakdown cover £m	Total £m
At 31 January 2016	0.5	0.6	-	-	1.1
Provision utilised	(0.5)	(0.2)	-	-	(0.7)
Released unutilised during the year	-	(0.3)	-	-	(0.3)
Charge for the year	-	0.5	-	2.4	2.9
At 31 January 2017	**-**	**0.6**	**-**	**2.4**	**3.0**
Provision utilised	-	(0.1)	-	(2.0)	(2.1)
Released unutilised during the year	-	-	-	(0.3)	(0.3)
Charge for the year	-	-	0.2	-	0.2
At 31 January 2018	**-**	**0.5**	**0.2**	**0.1**	**0.8**
Current	-	0.1	0.2	0.1	0.4
Non-current	-	0.4	-	-	0.4
At 31 January 2018	**-**	**0.5**	**0.2**	**0.1**	**0.8**
Current	-	0.2	-	2.4	2.6
Non-current	-	0.4	-	-	0.4
At 31 January 2017	**-**	**0.6**	**-**	**2.4**	**3.0**

16 PROVISIONS FOR LIABILITIES (continued)

Other provisions relate to a provision for an onerous contract. The vacant property provision related to the closure of a network of high street outlets, and relates to future lease costs of vacant properties for the remaining period of the lease, net of expected sub-letting income, as well as dilapidations. The majority of this provision will be used during the next two years.

The restructuring provision related to redundancy costs arising from the restructuring of operations.

In the previous financial year, we 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 held AVAs (Added Value Accounts) with our banking partners. We proposed a programme of remediation for them which has the support of the regulatory authority. While 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, we identified a group of customers for whom the benefit of holding both forms of cover were not clear. We provided a total of £2.4m in 2017 for our estimate of the refunds due of which £1.7m was expected to relate to premiums previously paid for breakdown cover and £0.7m for interest payable on those premiums. During the period £2.0m has been paid out, £0.3m has been released and we expect to pay out the remaining amount during the next financial year.

17 CALLED UP SHARE CAPITAL

Allotted, called up and fully paid	**2018 £m**	2017 £m
19,000,000 ordinary shares of £1 each	**19.0**	19.0

As at 31 January 2018, the Company had distributable reserves of £280.4m (2017: £254.4m).

During the year, a dividend of £100.0m (2017: £90.0m) was paid to the parent entity, AA Corporation Limited.

18 GUARANTEES AND COMMITMENTS

Operating leases

Future minimum rentals payable under non-cancellable operating leases as at 31 January are as follows:

	Land and buildings	
	2018 £m	2017 £m
Leases expiring:		
Within one year	**-**	**0.2**
	-	**0.2**

18 GUARANTEES AND COMMITMENTS (continued)

Finance lease obligations

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

	2018		2017	
	Present value of payments £m	**Minimum payments £m**	Present value of payments £m	Minimum payments £m
Within one year	**0.1**	**0.1**	0.3	0.4
Between one and five years	**0.2**	**0.2**	0.6	0.7
Total minimum lease payments	**0.3**	**0.3**	0.9	1.1
Less amounts representing finance charge	**-**	**-**	-	(0.2)
Present value of minimum lease payments	**0.3**	**0.3**	0.9	0.9

At the year end, the Company had capital commitments of £0.2m (2017: £0.2m).

Cross company guarantees

The Company is an obligor to the bank loans and bond debt of the AA Intermediate Co Limited group. At 31 January 2018, the principal outstanding on the AA Intermediate Co Limited group debt was £2,770.0m (2017: £2,848.0m).

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

19 RELATED PARTY TRANSACTIONS

During the year, the Company entered into related party transactions with its fellow subsidiary undertakings. The balances outstanding at the end of the financial year were:

	2018 £m	2017 £m
Owed by:		
AA Corporation Ltd	**204.9**	192.3
AA Developments Ltd	**0.1**	-
AA Acquisition Co Ltd	**117.7**	117.7
AA Reinsurance Company Ltd	**-**	0.1
Breakdown Hero Ltd	**-**	0.3
Owed to:		
AA Underwriting Insurance Company Ltd	**(10.5)**	(6.9)
AA Corporation Ltd	**-**	(12.7)
AA Developments Ltd	**-**	(0.4)
AA Plc	**-**	(0.1)

These amounts are unsecured, have no repayment terms and bear no interest.

20 GROUP UNDERTAKINGS

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

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

[1] Directly owned by Automobile Association Insurance Services Limited, all other subsidiaries are indirectly held.

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

Joint ventures

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

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

21 ULTIMATE PARENT UNDERTAKING AND ULTIMATE CONTROLLING PARTY

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

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

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