

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2018



Registered number: 01878835

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

FOR THE YEAR ENDED 31 JANUARY 2018

STRATEGIC REPORT

The directors present their report and audited financial statements of Automobile Association Developments Limited ("the Company") for the year ended 31 January 2018.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

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

The principal activity of the Company is the provision of Roadside Assistance and the management of the AA's driving instructor franchise operations.

The Company is part of an asset-backed funding scheme in relation to the AAUK pension scheme. The asset-backed funding scheme provides a long-term deficit reduction plan where the Company makes an annual deficit reduction contribution increasing with inflation (capped at 5% each year), over a period of 25 years up to 2038 secured on the AA brand. In the current year, this contribution was £13.2m. Further details on this arrangement are contained in note 22.

On 8 June 2017, the AA announced that the triennial review of the AA's UK defined benefit pension scheme had been concluded and the Trustee and the AA had come to agreement on the deficit funding plan. This plan was based on the triennial valuation of the UK's pension scheme deficit as at 31 March 2016 of £366m and compared with the previous 2013 triennial deficit valuation of £202m. The increase in the deficit was largely caused by the reduction in long-term gilt yields. We have agreed a nine-year deficit recovery additional funding plan with the Trustee, taking into account the continued funding of the previous deficit. We will make additional contributions of £8m per annum until March 2019, £11m from April 2019 for one year, £11m plus inflation per annum from April 2020, £13m from April 2021 for one year and £13m plus inflation per annum from April 2022 to June 2026. These will be incremental to the existing deficit reduction contributions to the UK pension scheme of £13m per annum increasing with inflation through to 2038. The total deficit reduction payment to the UK pension scheme in the 2018 financial year was £20m. The next triennial actuarial review is scheduled as at 31 March 2019.

The AA has also put into action the changes to the defined benefit pension scheme which has Final Salary sections and a CARE (career average revalued earnings) section. All employees that were in the Final Salary section of the scheme were moved to the existing CARE section to build up future defined pension benefits. Changes were also made to the CARE section with the inflation measure for pension indexation moved to CPI from RPI and additional employee contributions of 1.5% of salary and a change to accrual rates. This approach has mitigated some of the recent increases in ongoing pension service costs. Overall, the changes have reduced our exposure to pension risks, increased our competitiveness within our industry and provided for a more consistent pension offering across our existing defined benefit scheme members.

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 are personal Members and hold AVAs (Added Value Accounts) with our banking partners. While some may be unaware that they have duplicate cover, others choose 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 was not clear. We proposed a programme of remediation for them. The Company provided a total of £7.9m for the estimate of the refunds due of which £5.6m was expected to relate to premiums previously paid for breakdown cover and £2.3m for interest payable on those premiums. During the year £4.1m was paid out relating to premiums and £2.4m relating to interest, £0.9m has been released and we expect to pay out the remaining amount during the next financial year.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

FOR THE YEAR ENDED 31 JANUARY 2018

STRATEGIC REPORT (continued)

The directors believe for decision making and internal performance management, management's key performance metric is Trading EBITDA, which 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 and tax expense. During the year, Trading EBITDA decreased to £118.5m (2017: £138.8m), as a result of the decline in membership numbers and business customers in addition to increased costs of third-party garaging due to workload peaks and wage inflation which we were unable to absorb through price rises.

Profit before tax increased to £97.1m (2017: £87.8m) due principally to the one off pension past service credit.

The balance sheet shows the Company's financial position at the year end. Overall equity decreased by £36.3m to £1,286.2m (2017: £1,322.5m).

DIVIDENDS

The Company paid a dividend of £214.9m during the year (2017: £nil).

RISK MANAGEMENT FRAMEWORK

The Company is part of the AA plc group which 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 Board's agreed risk appetite.

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

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

Brand 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.

Financial Risk

The Company is part of the AA plc group and its financial risks are managed centrally by the group treasury team taking into account the Company's position as part of the group with due consideration being given to the impact of transactions with other group entities.

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.

Credit Risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The directors are satisfied that no action to mitigate this risk is necessary.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

FOR THE YEAR ENDED 31 JANUARY 2018

STRATEGIC REPORT (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.

BY ORDER OF THE BOARD



M CLARKE
DIRECTOR

14 June 2018

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

FOR THE YEAR ENDED 31 JANUARY 2018

DIRECTORS' REPORT

DIRECTORS

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

S J Breakwell	(Appointed 22 November 2017)
M A Clarke	
G R Kirkwood	(Appointed 22 November 2017)
M W Strickland	(Appointed 7 August 2017)
O J Kunc	(Resigned 31 May 2017)
K E R Lloyd-Jukes	(Resigned 8 December 2017)
R D Mackenzie	(Dismissed 1 August 2017)
M F Millar	(Resigned 17 April 2018)
M Lloyd	(Appointed 10 February 2017, Resigned 25 May 2018)

Company secretary

M F Millar	(Resigned 17 April 2018)
C M Hammond	(Appointed 17 April 2018)

DIRECTORS' INDEMNITY

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 International Financial Reporting Standards as adopted by the European Union (IFRS). 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 IFRS as adopted by the EU 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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

FOR THE YEAR ENDED 31 JANUARY 2018

DIRECTORS' REPORT (continued)

GOING CONCERN

The Company's business activities and its exposure to financial risk are described in the strategic report on pages 1-3.

The directors believe that the Company has adequate financial resources due to the Company's own net current asset position as well as the available cash resources of the AA Intermediate Co group which can be drawn upon. 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 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.

POST BALANCE SHEET EVENTS

Bob Mackenzie Litigation

On 7 March 2018, the AA plc Group received notification that former Executive Chairman, Bob Mackenzie, who was dismissed for gross misconduct on 1 August 2017, had on 6 March 2018 issued a Claim Form in the High Court, Chancery Division against AA plc, Automobile Association Developments Limited and personally against a number of their Directors and the Company Secretary. The Claim Form seeks a permanent injunction to retain his MVP shares and up to £225m in damages. As this litigation is active at the date of signing these company financial statements, the directors of the Company have considered any potential financial impact. The Company has not made a provision for these amounts as the AA plc Group expects to be successful in rigorously defending these claims. However, the AA plc Group will incur legal costs of approximately £1m to defend these claims during the next two financial years which it would seek to recover from Bob Mackenzie when the litigation concludes.

BY ORDER OF THE BOARD



M CLARKE
DIRECTOR

14 June 2018

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

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

Opinion

We have audited the financial statements of Automobile Association Developments Limited for the year ended 31 January 2018 which comprise Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cashflows and the related notes 1 to 31, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 IFRSs as adopted by the European Union; 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 conclude 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 DEVELOPMENTS 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 by the parent company, 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 set out on page 4, 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.

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

*Kathryn Barrow (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London*

15 June 2018

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 JANUARY

	Notes	2018 £m	2017 £m																												
Trading Revenue		597.2	602.2																												
Exceptional Revenue Provision	19	0.9	(6.7)																												
TOTAL REVENUE		598.1	595.5																												
COST OF SALES		(315.4)	(300.0)																												
GROSS PROFIT		282.7	295.5																												
Administrative & marketing expenses		(199.9)	(228.1)																												
Share of profits of joint venture and associates, net of tax		-	9.6																												
OPERATING PROFIT	4	82.8	77.0																												
<table style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td>Trading EBITDA</td> <td></td> <td style="text-align: right;">118.5</td> <td style="text-align: right;">138.8</td> </tr> <tr> <td>Share-based payments</td> <td style="text-align: center;">24</td> <td style="text-align: right;">(6.9)</td> <td style="text-align: right;">(11.5)</td> </tr> <tr> <td>Pension service charge adjustment</td> <td style="text-align: center;">3</td> <td style="text-align: right;">(10.4)</td> <td style="text-align: right;">(9.5)</td> </tr> <tr> <td>Amortisation and depreciation</td> <td style="text-align: center;">13,14</td> <td style="text-align: right;">(36.8)</td> <td style="text-align: right;">(31.8)</td> </tr> <tr> <td>Operating profit before exceptional items</td> <td></td> <td style="text-align: right;">64.4</td> <td style="text-align: right;">86.0</td> </tr> <tr> <td>Exceptional operating items</td> <td style="text-align: center;">5</td> <td style="text-align: right;">18.4</td> <td style="text-align: right;">(9.0)</td> </tr> <tr> <td>OPERATING PROFIT</td> <td></td> <td style="text-align: right;">82.8</td> <td style="text-align: right;">77.0</td> </tr> </tbody> </table>				Trading EBITDA		118.5	138.8	Share-based payments	24	(6.9)	(11.5)	Pension service charge adjustment	3	(10.4)	(9.5)	Amortisation and depreciation	13,14	(36.8)	(31.8)	Operating profit before exceptional items		64.4	86.0	Exceptional operating items	5	18.4	(9.0)	OPERATING PROFIT		82.8	77.0
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OPERATING PROFIT		82.8	77.0																												
Finance income	8	29.2	29.5																												
Finance costs	9	(14.9)	(19.5)																												
Income from associated undertakings		-	0.8																												
PROFIT BEFORE TAX		97.1	87.8																												
Tax expense	10	(15.0)	(19.0)																												
PROFIT FOR THE FINANCIAL YEAR		82.1	68.8																												

All income and expenditure arises from continuing operations.

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

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 JANUARY

	2018 £m	2017 £m
PROFIT FOR THE YEAR	82.1	68.8
OTHER COMPREHENSIVE INCOME ON ITEMS THAT MAY BE RECLASSIFIED TO PROFIT AND LOSS IN SUBSEQUENT YEARS		
Effective portion of changes in fair value of cash flow hedges	(0.2)	3.6
Current tax effect	-	(0.8)
	<u>(0.2)</u>	<u>2.8</u>
OTHER COMPREHENSIVE INCOME ON ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT AND LOSS IN SUBSEQUENT YEARS		
Remeasurement on gains/(losses) on defined benefit pension schemes (see note 21)	116.7	(99.2)
Tax effect	(19.8)	16.9
	<u>96.9</u>	<u>(82.3)</u>
TOTAL OTHER COMPREHENSIVE INCOME	96.7	(79.5)
	<u>96.7</u>	<u>(79.5)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	178.8	(10.7)
	<u>178.8</u>	<u>(10.7)</u>

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

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

STATEMENT OF FINANCIAL POSITION AT 31 JANUARY

	Notes	2018 £m	Restated 2017 ¹ £m
NON-CURRENT ASSETS			
Intangible assets	13	17.1	24.8
Investments in subsidiaries	12	504.7	504.7
Investment in joint ventures and associates	12	1.9	1.9
Fuel swap used for hedging		-	0.2
Trade and other receivables	16	537.7	538.9
Property, plant and equipment	14	107.1	105.6
Deferred tax asset	11	9.2	34.9
		1,177.7	1,211.0
CURRENT ASSETS			
Inventories	15	3.9	3.3
Trade and other receivables	16	985.4	984.9
Current tax receivable		20.7	5.5
Cash and cash equivalents		31.2	120.8
		1,041.2	1,114.5
TOTAL ASSETS		2,218.9	2,325.5
CURRENT LIABILITIES			
Trade and other payables	17	(668.4)	(584.2)
Provisions	19	(9.3)	(9.7)
		(677.7)	(593.9)
NON-CURRENT LIABILITIES			
Finance lease obligations	20	(15.9)	(19.5)
Defined benefit pension scheme net liabilities	21	(233.9)	(384.0)
Accrued income		(1.0)	-
Provisions	19	(4.2)	(5.6)
		(255.0)	(409.1)
TOTAL LIABILITIES		(932.7)	(1,003.0)
NET ASSETS		1,286.2	1,322.5
EQUITY			
Share capital	18	0.1	0.1
Cash flow hedge reserve		(0.1)	0.1
Retained earnings		1,286.2	1,322.3
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS		1,286.2	1,322.5

¹ See note 30

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



M CLARKE
DIRECTOR

14 June 2018

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

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 JANUARY

	Share capital	Share premium	Cashflow hedge reserve	Retained earnings	Total
	£m	£m	£m	£m	£m
At 1 February 2016	9.6	300.0	(2.7)	1014.8	1,321.7
Profit for the year	-	-	-	68.8	68.8
Other comprehensive income	-	-	2.8	(82.3)	(79.5)
Total comprehensive income	-	-	2.8	(13.5)	(10.7)
Bonus Issue	0.1	1243.4	-	(1,243.5)	-
Capital reduction	(9.6)	(1543.4)	-	1,553.0	-
Share-based payments	-	-	-	11.5	11.5
At 31 January 2017	0.1	-	0.1	1,322.3	1,322.5
Profit for the year	-	-	-	82.1	82.1
Other comprehensive income	-	-	(0.2)	96.9	96.7
Total comprehensive income	-	-	(0.2)	179.0	178.8
Dividends	-	-	-	(214.9)	(214.9)
Share-based payments	-	-	-	(0.2)	(0.2)
At 31 January 2018	0.1	-	(0.1)	1,286.2	1,286.2

The dividend paid per share is £2,148 (2017: £nil).

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

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 31 JANUARY

	2018 £m	2017 £m
Profit before tax	97.1	87.8
Amortisation and depreciation	36.8	31.8
Net finance income	(14.3)	(10.0)
Dividend from associate	-	(0.8)
Impairment of goodwill	7.6	-
Impairment of investment in joint venture and investment in subsidiary	-	3.4
Share-based payments	(0.2)	11.5
Working capital:		
Decrease/(increase) in trade and other receivables	0.6	(96.0)
Increase in trade and other payables	83.7	71.8
(Decrease)/increase in provisions	(2.7)	9.1
Difference between pension charge and cash contributions	(42.9)	(10.3)
Total working capital adjustments	38.7	(25.4)
Net cash flows from operating activities before tax	165.7	98.3
Tax paid	(23.5)	(21.9)
Net cash flows from operating activities	142.2	76.4
Investing activities		
Capital expenditure	(20.6)	(17.9)
Proceeds from sale of fixed assets	16.2	17.6
Acquisitions net of cash acquired or disposed of	-	(2.2)
Disposals net of cash acquired or disposed of	-	0.2
Interest received	29.2	29.2
Dividend from associate	-	0.8
Net cash flows used in investing activities	24.8	27.7
Financing activities		
Payment of finance lease capital	(37.3)	(41.4)
Payment of finance lease interest	(4.4)	(6.4)
Dividends paid	(214.9)	-
Net cash flows from financing activities	(256.6)	(47.8)
Net increase in cash and cash equivalents	(89.6)	56.3
Net foreign exchange differences	-	0.3
Cash and cash equivalents at 1 February	120.8	64.2
Cash and cash equivalents at 31 January	31.2	120.8

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

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Presentation and basis of preparation of financial statements

1.1 Presentation of financial statements

Automobile Association Developments Limited is incorporated and domiciled in England and Wales.

The financial statements are prepared in Sterling and are rounded to the nearest £100,000.

1.2 Basis of preparation

The Company has prepared these separate 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. The financial statements are prepared under the historical cost convention.

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 exemption from preparing consolidated financial statements afforded by Section 400 of the Companies Act 2006 because it is a wholly owned subsidiary of AA plc, which prepares consolidated financial statements which are publically available.

2 Accounting policies

2.1 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 ongoing basis and include the selection of assumptions in relation to the retirement benefit obligation.

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.

Retirement benefit obligation

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

Derivative financial Instruments

The fair value of derivative financial instruments is determined by reference to market values for similar financial instruments. The Company is therefore required to identify changes in market conditions around expectations for fuel prices. These assumptions may be different to the actual outcome.

Share-based payments

The Company has issued a number of share-based payment awards to employees during the year which are measured at fair value. This involves estimates about the expected volatility of the share price and the number of leavers over the vesting period.

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. Management has prepared discounted cash flows based on the latest strategic plan.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2.2 Significant accounting policies

a) 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 are apportioned on a time basis over the period where the Company is liable for risk cover. The unrecognised element of subscriptions, relating to future periods, is held within liabilities as deferred income.

For all other revenue, income is recognised at point of delivery of goods or on provision of service. This includes work which has not yet been fully invoiced, provided that it is considered to be fully recoverable.

b) Insurance contracts

An insurance contract is a contract under which insurance risk is transferred to the issuer of the contract by another party. The Company 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 the income statement as incurred.

At the balance sheet 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 and other insurance contract liabilities. Any deficiency is immediately recognised in the income statement and an onerous contract provision is established.

The estimation of the ultimate liability from claims made under insurance contracts is not considered to be one of the Company's critical accounting estimates. This is because there is a very short period of time between the receipt of a claim, i.e. 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.

c) Goodwill and intangible assets

Goodwill is the difference between the fair value of the consideration paid for an acquired entity and the aggregate of the fair values of that entity's separately identifiable assets and liabilities. Positive goodwill is recognised as an asset on the balance sheet at cost less accumulated impairment losses.

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.

d) 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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2.2 Significant accounting policies (continued)

e) Tangible fixed assets

Tangible fixed assets are 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. The cost of fixed assets less their expected residual value is depreciated by equal instalments over their useful economic lives. These lives are as follows:

Freehold properties	50 years
Long leasehold properties	50 years
Short leasehold properties	over the period of the lease
Fixtures, fittings and equipment	3 - 20 years
Motor vehicles	3 - 6 years

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.

f) Investments in group undertakings

Investments 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.

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 balance sheet 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 period of the lease and hire purchase contract.

Rentals payable under operating leases are charged to the income statement on a straight line basis over the lease term.

h) Inventory

Inventory is valued at the lower of cost or net realisable value.

i) Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Assets and liabilities in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year. Gains and losses arising on the translation of assets and liabilities are taken to the income statement.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2.2 Significant accounting policies (continued)

j) 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.

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.

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. The unwinding of the provision is discounted on a reducing balance basis, using standard rates across the AA plc group.

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

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2.2 Significant accounting policies (continued)

l) Retirement benefits

The Company'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 Company 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 Company'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 Company 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 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 Company, 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) Financial instruments

Financial assets and financial liabilities are recognised in the 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. At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Trade receivables and trade payables

Trade receivables and trade payables are not interest bearing and are recognised initially at fair value. 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.

Cash and cash equivalents

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

Equity instruments (share capital issued by the Company)

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all its liabilities. Equity instruments are recognised at the fair value of proceeds received less direct issue costs.

Derivative financial instruments

The Company is exposed to the financial risk of changes in fuel costs. The Company uses agreements 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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2.2 Significant accounting policies (continued)

Cash flow hedges

Changes in the fair value of derivative financial instruments that are designated as highly effective hedges of future cash flows are recognised in other comprehensive income and as part of the cash flow hedge within equity. Any ineffective portion of the hedge is recognised immediately in the income statement. Amounts recognised in other comprehensive income are reclassified from equity to profit and loss (within finance costs) in the period when the hedged item affects profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in the other comprehensive income at that time remains in equity and is reclassified when the hedged transaction is ultimately recognised in the income statement.

In order to qualify for hedge accounting, the Company is required to document from inception the relationship between the item being hedged and the hedging instrument and demonstrate that the hedge will be highly effective on an on-going basis. This effectiveness testing is performed at each period end to ensure that the hedge remains highly effective.

n) Share-based payments

The Company operates a number of equity settled, share-based payment compensation plans for employees on behalf of the ultimate parent undertaking, AA plc. The fair value of the equity settled awards is measured at the grant date based on expectations of performance conditions being met. The fair value of the awards is recognised as an expense with a corresponding credit to reserves.

o) Exceptional items

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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3 SEGMENTAL INFORMATION

All activities relate to one segment, Roadside which includes the provision of breakdown cover and the management of the AA's driving instructor franchise operations. All income originates in the United Kingdom.

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.

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 and tax expense. This better reflects the Group's underlying performance.

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.

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.

4 OPERATING PROFIT

Operating profit is stated after charging:

	2018	2017
	£m	£m
Amortisation of owned intangible assets	4.5	3.7
Operating lease rentals payable:		
- Land & buildings	1.7	1.8
- Motor vehicles	-	1.4
Depreciation of tangible fixed assets		
- Owned assets	8.1	6.0
- Under finance leases	24.2	22.1
Brand royalty payment (see note 22)	75.9	76.8
Profit on licence of brand	-	9.6

Auditors' remuneration in respect of the audit of the Company's financial statements for the year ended 31 January 2018 amounted to £290,000 (2017: £243,600). The Company's auditor provided no services to the Company other than the annual audit during either the current or prior year.

During the prior year, the Company issued a perpetual licence to AA Ireland Limited for use of the AA brand. The one-off consideration for this licence was £9.6m.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

5 EXCEPTIONAL ITEMS

	2018 £m	2017 £m
Pension past service credit	33.9	-
Impairment of investment in joint venture	-	(1.8)
Impairment of investment in subsidiary	-	(1.6)
Impairment of goodwill	(7.6)	-
Other exceptional operating items	(8.8)	(9.6)
Duplicate cover	0.9	(5.6)
Profit on license of brand	-	9.6
	18.4	(9.0)

Exceptional operating costs in the year ended 31 January 2018 comprise a gain on disposal of fixed assets of £0.7m, recharge of group exceptional costs of £3.7m, business restructuring costs £14.5m, the reversal of share-based payments for Bob Mackenzie gain of £7.1m, impairment of joint venture £0.3m and profit on onerous property lease provisions no longer required £1.9m.

During the year there has been an impairment of goodwill relating to BSM driving schools of £7.6m and a duplicate cover provision release of £0.9m (see note 19).

Pension past service credit £33.9m is as a result of the benefit changes implemented during the year (see note 21). 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.

Exceptional revenue during the year to 31 January 2017 included £6.7m for duplicate breakdown cover. Additionally, cost of sales includes a £1.1m credit for exceptional commission and £2.3m was charged to exceptional finance charges, bringing the total exceptional amount for duplicate breakdown cover to £7.9m. See note 19 for further information.

Exceptional operating costs in the year ended 31 January 2017 comprise loss on disposal of fixed assets of £1.7m, recharge of group exceptional costs of £6.7m, business restructuring costs £2.0m, offset by profit on ACTA share disposal offset by onerous property lease provisions no longer required £0.8m.

There were also further exceptional operating costs in the year ended 31 January 2017 comprising impairment of investment in subsidiary £1.6m (see note 12) and impairment of investment in joint venture £1.8m (see note 12), offset by profit on the license of the brand £9.6m.

6 STAFF COSTS

Staff costs during the year were as follows:

	2018 £m	2017 £m
Wages and salaries	148.7	150.9
Social security costs	17.0	15.5
Other pension costs	26.0	23.0
Share-based payments	6.9	11.5
	198.6	200.9

The pension past service credit of £33.9m (2017: £nil) is excluded from retirement benefit costs above, see note 21.

The average number of employees was 7,177 (2017: 7,250).

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

7 DIRECTORS' REMUNERATION

	2018 £m	2017 £m
Aggregate remuneration in respect of qualifying services	2.8	3.0
Money purchase scheme contributions	0.1	0.1
Compensation for loss of office	0.2	0.1
	3.1	3.2

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

Remuneration	0.5	1.3
Money purchase scheme contributions	0.1	0.1
	0.6	1.4

All directors of the Company are also directors of the ultimate parent undertaking (AA plc) and/or fellow subsidiaries. These directors are remunerated by the Company. 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 (2017: 3) directors under a defined benefit scheme.

8 INTEREST RECEIVABLE AND SIMILAR INCOME

	2018 £m	2017 £m
Bank interest receivable	0.5	0.5
Foreign exchange gain	-	0.3
Finance income in respect of ABF scheme (see note 22)	10.5	10.2
Return on investment in AA Pension Funding LP (see note 22)	18.2	18.5
	29.2	29.5

9 INTEREST PAYABLE AND SIMILAR CHARGES

	2018 £m	2017 £m
Interest on finance leases	5.1	7.3
Net finance expense on defined benefit pension schemes	9.5	9.9
Duplicate breakdown cover – interest on refunds (see note 19)	-	2.3
Foreign exchange loss	0.1	-
Other finance charges	0.2	-
	14.9	19.5

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

10 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

The tax charge is made up as follows:

	2018 £m	2017 £m
Current tax:		
- UK Corporation Tax at 19.16% (2017: 20.00%)	9.5	4.5
- Group relief payable	0.8	9.6
- Adjustments in respect of prior periods	(1.2)	2.0
Total current tax charge	9.1	16.1
Deferred tax:		
- Origination and reversal of temporary differences	6.8	0.8
- Adjustments in respect of prior periods	(0.1)	0.9
- Effect of tax rate change	(0.8)	1.2
Total deferred tax charge	5.9	2.9
Total tax charge on ordinary activities	15.0	19.0

The difference between the total current corporation tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

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

	2018 £m	2017 £m
Profit before tax	97.1	87.8
Tax at rate of 19.16% (2017: 20.00%)	18.6	17.6
Effects of:		
Adjustments in respect of prior periods	(1.3)	2.9
Expenses not deductible for tax purposes	0.2	0.4
Adjustment in respect of share schemes	(0.5)	1.6
Impairment of investments	1.5	0.7
Rate change adjustment on temporary differences	(0.8)	0.9
Use of group losses	(2.7)	(5.1)
Income tax expense reported in the income statement	15.0	19.0

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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	4.6	5.4	0.8	2.1
Other short term temporary differences	1.1	1.2	0.1	0.7
Pensions	4.9	29.7	5.0	0.1
Capital gains rolled over	<u>(1.4)</u>	<u>(1.4)</u>	<u>-</u>	<u>-</u>
Deferred tax asset	<u>9.2</u>	<u>34.9</u>	<u>5.9</u>	<u>2.9</u>
			£m	£m
Deferred tax asset as at 1 February			34.9	20.9
Charge to the profit and loss account			(5.9)	(2.9)
Tax (expense)/income recognised in OCI			<u>(19.8)</u>	<u>16.9</u>
Deferred tax asset as at 31 January			<u>9.2</u>	<u>34.9</u>

The UK corporation tax rate will reduce from 19% to 17% on 1 April 2020. These rates have been enacted at the balance sheet date and used to calculate the deferred tax asset.

A deferred tax asset of £0.2m (2017: £0.3m) has not been recognised on historic capital losses.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

12 INVESTMENTS IN GROUP UNDERTAKINGS

	Shares in subsidiary undertakings	Shares in joint ventures and associated undertakings
	£m	£m
Cost		
As at 1 February 2017	559.1	3.7
Additions	-	0.3
Disposals	-	-
As at 31 January 2018	559.1	4.0
Impairment		
As at 31 January 2017	(54.4)	(1.8)
Impairment	-	(0.3)
As at 31 January 2018	(54.4)	(2.1)
Net book value		
At 31 January 2018	504.7	1.9
At 31 January 2017	504.7	1.9

The associates of the Group which are indirectly held are listed below.

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

During the prior year, the Company sold its interest in the shares of ACTA Assistance SA to ARC Europe SA. The other parties owning shares in ACTA Assistance SA and ARC Europe SA also sold their interest in ACTA Assistance for shares in ARC Europe so that the overall interest held in ARC Europe remained the same for each party.

The Company also received a dividend from ACTA Assistance during the prior year of £0.8m.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13 INTANGIBLE ASSETS

	Goodwill £m	Software £m	Total £m
Cost			
At 1 February 2016	7.6	31.0	38.6
Additions	-	7.8	7.8
Disposals		(5.2)	(5.2)
At 31 January 2017	7.6	33.6	41.2
Additions	-	4.4	4.4
At 31 January 2018	7.6	38.0	45.6
Amortisation and impairment			
At 1 February 2016	-	17.9	17.9
Amortisation	-	3.7	3.7
Amortisation on disposals	-	(5.2)	(5.2)
At 31 January 2017	-	16.4	16.4
Amortisation	-	4.5	4.5
Impairment	7.6	-	7.6
At 31 January 2018	7.6	20.9	28.5
Net book value			
At 31 January 2018	-	17.1	17.1
At 31 January 2017	7.6	17.2	24.8

Within software is £1.8m (2017: £4.0m) which relates to assets under construction that are not amortised. Software additions comprise £1.8m (2017: £0.3m) in relation to internally developed assets and £6.0m (2017: £7.5m) in respect of separately acquired assets.

The Company has performed impairment testing at 31 January 2018 and 31 January 2017. The impairment test compares the recoverable amount of the CGU to 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 Company's three year plan up to 31 January 2021 and a reasonable expectation of growth in the subsequent two years. For the purposes of the impairment test, terminal values have been calculated using the Gordon growth model and a nil growth assumption which is lower than the expected long term average growth rate of the UK economy. 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 9.6% (2017: 9.0%).

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.

As a result of this review the BSM goodwill has been impaired by £7.6m (2017: £nil).

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

14 TANGIBLE FIXED ASSETS

	Freehold properties £m	Leasehold properties £m	Equipment and vehicles £m	Total £m
Cost				
As at 1 February 2016	9.4	10.8	169.0	189.2
Additions	-	-	57.9	57.9
Disposals	-	-	(70.8)	(70.8)
As at 1 February 2017	9.4	10.8	156.1	176.3
Additions	-	-	52.2	52.2
Disposals	-	-	(33.6)	(33.6)
As at 31 January 2018	9.4	10.8	174.7	194.9
Depreciation				
At 1 February 2016	3.4	8.2	82.7	94.3
Charge for year	0.2	0.3	27.6	28.1
Disposals	-	-	(51.7)	(51.7)
At 1 February 2017	3.6	8.5	58.6	70.7
Charge for year	0.2	0.3	31.8	32.3
Disposals	-	-	(15.2)	(15.2)
As at 31 January 2018	3.8	8.8	75.2	87.8
Net book value				
At 31 January 2018	5.6	2.0	99.5	107.1
At 31 January 2017	5.8	2.3	97.5	105.6

The net book amount of vehicles includes £68.2m (2017: £70.5m) held under finance lease agreements. The accumulated depreciation on these assets is £34.6m (2017: £25.5m).

The net book amount of other assets includes £0.1m (2017: £0.1m) in respect of plant & machinery held under finance lease agreements. The accumulated depreciation on these assets is £8.0m (2017: £8.0m).

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

15 INVENTORIES

	2018 £m	2017 £m
Finished goods and goods for resale	3.9	3.3

16 TRADE AND OTHER RECEIVABLES

	2018 £m	restated 2017 ¹ £m
Amounts receivable in more than one year		
Amounts owed by group undertakings	537.7	538.9
Amounts receivable within one year		
Trade receivables	40.3	46.6
Amounts owed by group undertakings	917.3	914.8
Other receivables	1.9	2.2
Prepayments and accrued income	25.9	21.3
	985.4	984.9

¹ See note 30

Amounts owed by group undertakings include £679.0m (2017: £650.2m) of which £537.7m (2017: £538.9m) is due in more than one year, relating to the asset backed funding scheme. Further details on these balances are in note 22.

All other amounts owed by group undertakings are unsecured, have no repayment terms and bear no interest.

17 TRADE AND OTHER PAYABLES

	2018 £m	2017 £m
Trade creditors	32.7	27.3
Amounts owed to group undertakings	350.3	261.2
Accruals and deferred income	209.6	219.2
Other taxation and social security	14.3	19.5
Other creditors	14.1	10.4
Obligations under finance leases and hire purchase contracts	47.4	46.6
	668.4	584.2

All amounts owed to group undertakings are unsecured, have no repayment terms and bear no interest.

18 SHARE CAPITAL AND SHARE PREMIUM

	2018 £m	2017 £m
Allotted, called up and fully paid		
100,000 (2017: 100,000) ordinary shares of £1 each	0.1	0.1

As at 31 January 2018, the Company had distributable reserves of £1,228.3m (2017: £1,293.7m).

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

19 PROVISIONS

	Vacant property provisions £m	Business restructuring provision	Duplicate breakdown cover £m	Total £m
At 1 February 2016	3.9	-	-	3.9
Utilised during the year	(1.1)	-	-	(1.1)
Released unutilised during the year	(0.1)	-	-	(0.1)
Charge for the year	4.7	-	7.9	12.6
At 31 January 2017	7.4	-	7.9	15.3
Provision utilised	(1.1)	-	(6.5)	(7.6)
Released unutilised during the year	(2.0)	-	(0.9)	(2.9)
Charge for the year	-	8.7	-	8.7
At 31 January 2018	4.3	8.7	0.5	13.5
Current	0.1	8.7	0.5	9.3
Non-current	4.2	-	-	4.2
At 31 January 2018	4.3	8.7	0.5	13.5
Current	1.8	-	7.9	9.7
Non-current	5.6	-	-	5.6
At 31 January 2017	7.4	-	7.9	15.3

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 are personal Members and hold AVAs (Added Value Accounts) with our banking partners. While some may be unaware that they have duplicate cover, others choose 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 was not clear. We proposed a programme of remediation for them. The Company provided a total of £7.9m for the estimate of the refunds due of which £5.6m was expected to relate to premiums previously paid for breakdown cover and £2.3m for interest payable on those premiums. During the current year £4.1m was paid out relating to premiums and £2.4m relating to interest, £0.9m has been released and we expect to pay out the remaining amount during the next financial year.

The property provision relates to future lease costs of vacant properties for the remaining period of the lease, net of expected sub-letting income. The provision is expected to be paid out over the next 10 years. The provision has been calculated on a pre-tax discounted basis.

On 7 March 2018, the AA plc Group received notification that former Executive Chairman, Bob Mackenzie, who was dismissed for gross misconduct on 1 August 2017, had on 6 March 2018 issued a Claim Form in the High Court, Chancery Division against AA plc, Automobile Association Developments Limited and personally against a number of their Directors and the Company Secretary. The Claim Form seeks a permanent injunction to retain his MVP shares and up to £225m in damages. As this litigation is active at the date of signing these company financial statements, the directors of the Company have considered any potential financial impact. The Company has not made a provision for these amounts as the AA plc Group expects to be successful in rigorously defending these claims. However, the AA plc Group will incur legal costs of approximately £1m to defend these claims during the next two financial years which it would seek to recover from Bob Mackenzie when the litigation concludes.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

20 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:		
<i>Within one year</i>	0.1	-
In two to five years	1.7	2.8
After five years	21.1	21.7
	<u>22.9</u>	<u>24.5</u>
Income from operating sub leases	-	(1.4)
Amounts included in onerous lease provisions	(1.1)	(1.2)
	<u>21.8</u>	<u>21.9</u>

Finance lease obligations

The Company has finance lease contracts for various items of plant and machinery. Future minimum lease payments under finance lease contracts together with the present value of the net 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	47.4	50.5	46.6	49.6
Between one and five years	15.9	17.4	19.5	20.7
Total minimum lease payments	63.3	67.9	66.1	70.3
Less amounts representing finance charge	-	(4.6)	-	(4.2)
Present value of minimum lease payments	<u>63.3</u>	<u>63.3</u>	<u>66.1</u>	<u>66.1</u>

At the year end, the Company had capital commitments of £4.8m (2017: £1.1m).

Cross company guarantees

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 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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21 PENSION COSTS AND OTHER POST RETIREMENT BENEFITS

The Company operates a defined benefit pension scheme, the AA UK Pension Scheme (AAUK). The assets of the scheme are held separately from those of the Company in independently administered funds. The AAUK scheme has closed final salary sections and a Career Average Revalued Earnings (CARE) section which provides for benefits to accrue on an average salary basis. Since 2004, new entrants to the AAUK scheme accrue 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, pension indexation in the CARE section will now be based on CPI inflation, rather than RPI inflation, from April 2018 onwards. The Company also operates an unfunded post-retirement Private Medical Plan (AAPMP), which is treated as a defined benefit scheme and it 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 company-nominated directors include an independent director whom the trustee board directors have nominated as Chairman. The Trustee of the scheme is responsible for paying members' benefits and for investing scheme assets, which are legally separate from the Company.

The AAUK schemes is subject to a full actuarial valuation every three years using assumptions agreed between the Trustee of the 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 to 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 Company 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 IAS19 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 2018 by independent qualified actuaries.

The amounts recognised in the balance sheet are as follows:

	As at 31 January 2018		
	AAUK £m	AAPMP £m	Total £m
Present value of the defined benefit obligation in respect of pension plans	(2,489.7)	(45.7)	(2,535.4)
Fair value of plan assets	2,301.5	-	2,301.5
Deficit	(188.2)	(45.7)	(233.9)

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21 PENSION COSTS AND OTHER POST RETIREMENT BENEFITS (continued)

	As at 31 January 2017		Total £m
	AAUK £m	AAPMP £m	
Present value of the defined benefit obligation in respect of pension plans	(2,515.0)	(59.2)	(2,574.2)
Fair value of plan assets	2,190.2	-	2,190.2
Deficit	(324.8)	(59.2)	(384.0)

The decrease in the deficit is due to the strong performance of plan assets, falling long-term inflationary expectations, changes in the demographic assumptions (reflecting the latest outlook for mortality rates), the past service credit in respect of the closure of the final salary sections and change to CPI-linked pension indexation for the CARE section within the AAUK scheme and Company contributions paid into the schemes. This was partially offset by falling discount rates over the period.

In June 2017 the Company completed the AAUK scheme triennial valuation as at 31 March 2016 agreeing a funding deficit of £366m with the pension trustees. The Company 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. In November 2013 the Company implemented an asset backed funding scheme which remains in place. The asset backed funding scheme provides a long-term deficit reduction plan where the Company makes an annual deficit reduction contribution of £13m increasing annually with inflation, until October 2038, secured on the AA group's brands. The next triennial valuation of the AAUK scheme will take place as at 31 March 2019.

Using an inflation assumption of 3.1% 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 Company expects the present value of deficit reduction contributions to exceed the IAS 19 deficit. The Company 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 Company has recognised a one-off past service credit of £34m as a result of the benefit changes described above. 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 November 2017 the Company completed a full accounting valuation of the AAPMP with a valuation date of 31 January 2017. This updated the previous full accounting valuation of the AAPMP that was performed as at 31 January 2013 and was projected forward to relevant reporting dates.

The 31 January 2017 full accounting valuation of the AAPMP revealed a reduction in reported deficit as a result of the actual level of medical premium inflation experienced being lower than that assumed over the period between full valuations and the impact of the latest longevity expectations.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21 PENSION COSTS AND OTHER POST RETIREMENT BENEFITS (continued)

	Assets £m	Liabilities £m	Income statement £m	Statement of comprehensive income £m
Balance at 1 February 2017	2,190.2	(2,574.2)	-	-
Current service cost	-	(30.7)	(30.7)	-
Past service gain		33.9	33.9	
Interest on defined benefit scheme assets/(liabilities)	60.7	(70.2)	(9.5)	-
Amounts recognised in the income statement	60.7	(67.0)	(6.3)	-
Effect of changes in financial assumptions	-	(54.2)	-	(54.2)
Effect of changes in demographic expectations	-	63.4	-	63.4
Effect of experience adjustment	-	36.0	-	36.0
Return on plan assets excluding interest income	71.5	-	-	71.5
Amounts recognised in the statement of comprehensive income	71.5	45.2	-	116.7
Contribution from scheme participants	1.4	(1.4)	-	-
Benefits paid from scheme assets	(62.0)	62.0	-	-
Ongoing employer contributions	19.5	-	-	-
Deficit reduction employer contributions	20.2	-	-	-
Movements through cash	(20.9)	60.6	-	-
Balance at 31 January 2018	2,301.5	(2,535.4)	-	-

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21 PENSION COSTS AND OTHER POST RETIREMENT BENEFITS (continued)

	Assets £m	Liabilities £m	Income statement £m	Statement of comprehensive income £m
Balance at 1 February 2016	1,815.4	(2,100.6)	-	-
Current service cost	-	(28.8)	(28.8)	-
Interest on defined benefit scheme assets/(liabilities)	67.3	(77.2)	(9.9)	-
Amounts recognised in the income statement	67.3	(106.0)	(38.7)	-
Effect of changes in financial assumptions	-	(611.0)	-	(611.0)
Effect of changes in demographic expectations	-	110.2	-	110.2
Effect of experience adjustment	-	80.6	-	80.6
Return on plan assets excluding interest income	320.1	-	-	321.0
Amounts recognised in the statement of comprehensive income	320.1	(420.2)	-	(99.2)
Contribution from scheme participants	1.4	(1.4)	-	-
Benefits paid from scheme assets	(54.0)	54.0	-	-
Ongoing employer contributions	21.1	-	-	-
Deficit reduction employer contributions	18.9	-	-	-
Movements through cash	(12.6)	52.6	-	-
Balance at 31 January 2017	2,190.2	(2,574.2)	-	-

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 table below shows the AAUK scheme assets split between those that have a quoted market price and those that are unquoted.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21 PENSION COSTS AND OTHER POST RETIREMENT BENEFITS (continued)

	2018		2017	
	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	174.2	352.4	183.7	258.5
Bonds/swaps	812.5	210.6	876.0	183.2
Property	88.4	182.5	80.8	167.9
Hedge funds	22.7	439.6	-	401.0
Cash/net current assets	16.6	2.0	36.8	2.3
Total plan assets	1,114.4	1,187.1	1,177.3	1,012.9
Actual return on AAUK plan assets		132.2		388.3

Investment strategy

The AAUK 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 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 whilst hedging against downward market moves.

The trustee's investment advisors 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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21 PENSION COSTS AND OTHER POST RETIREMENT BENEFITS (continued)

Pension plan assumptions

The principal actuarial assumptions were as follows:

%	AAUK		AAPMP	
	2018 %	2017 %	2018 %	2017 %
Pensioner discount rate	2.5	2.7	2.5	2.7
Non-pensioner discount rate	2.6	2.9	2.5	2.7
Pensioner RPI	3.3	3.5	3.3	3.5
Non-pensioner RPI	3.3	3.5	3.3	3.5
Pensioner CPI	2.2	2.4	2.2	2.4
Non-pensioner CPI	2.2	2.4	2.2	2.4
Rate of increase of pensions in payment (final salary sections) - pensioner	3.1	3.2	-	-
Rate of increase of pensions in payment (final salary sections) - non pensioner	3.1	3.2	-	-
Rate of increase of pensions in payment (CARE section) - pensioner	1.7	2.2	-	-
Rate of increase of pensions in payment (CARE section) - non pensioner	1.7	2.2	-	-
Pensioner increase for deferred benefits	2.2	2.4	-	-
Medical premium inflation rate	-	-	7.3	7.5

Mortality assumptions are set using standard tables based on scheme specific experience where available and an allowance for future improvements. For 2018, the assumptions used were in line with the SAPS (S2) series mortality tables (2017 – SAPS (S2) series) with future improvements in line with the CMI_2016 model with a 1.25% long-term rate of improvement (2017 – CMI_2015 model with a 1.5% long-term rate of improvement).

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 ending 31 January 2018	
	AAUK £m	AAPMP £m
Increase of 0.25% in discount rate	126.0	2.1
Increase of 0.25% in Inflation rate	(100.4)	-
Increase of 1% in medical claims inflation	-	(8.8)
Increase of one year of life expectancy	(93.4)	-

An equivalent decrease in the assumptions at 31 January 2018 would have had the equal but opposite effect on the amounts shown above, on the basis that all other variables remain broadly constant.

The weighted average duration of plan liabilities at 31 January 2018 is around 21 years.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21 PENSION COSTS AND OTHER POST RETIREMENT BENEFITS (continued)

Pension scheme risks

The AAUK scheme has exposure to a number of risks because of the investments it makes in following its 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 by 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 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 had hedged around 60% of interest rate risk and around 65% of inflation risk (of the liabilities) as at 31 January 2018 as part of a policy to reduce financial risks to the Scheme. The current longer term objective is to aim to hedge around 75% of both the interest rate risk and inflation risk of the liabilities; this will help to further reduce funding level volatility. More interest rate hedging will be added in due course 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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

22 ASSET BACKED FUNDING SCHEME

In November 2013, the Company implemented an asset backed funding scheme which provides a long-term deficit reduction plan via an annual deficit reduction contribution over a period of up to 25 years secured on the AA brand.

As part of this scheme, the Company sold the brand to a subsidiary undertaking, AA Brand Management Limited in exchange for an equity investment in shares of £434.4m and a loan note receivable of £565.6m. The loan was transferred to the Scottish Limited Partnership, AA Pension Funding LP Limited, (see below) on the same day in exchange for cash. The Company continues to use the brand, paying royalties for the year of £75.9m (2017: £76.8m) included in net administrative expenses.

As part of the initial set up of the asset backed funding scheme, the Company made an initial partnership contribution to a Scottish Limited Partnership of £367.6m (included within amounts owed by group undertakings). The deficit reduction payments are made to the pension scheme through the Scottish Limited Partnership. The balance of the partnership contribution accrues interest which is recorded as interest receivable in the income statement. In the year, this amounted to £18.2m (2017: £18.5m). Monthly repayments of the partnership contribution are made by the Scottish Limited Partnership which amounted to £16.1m (2017: £15.7m) in the year. The balance of the partnership contribution as at 31 January 2018 was £380.2m (2017: £378.1m) and is repayable over 25 years up to 2038.

In addition, the Company also made an initial pension contribution of £198.0m to the pension scheme which was then invested by the scheme in the Scottish Limited Partnership. This contribution does not meet the definition of a plan asset and is therefore included in amounts owed by group undertakings and has accrued interest of £10.5m in the year (2017: £10.2m). The pension contribution is reduced by the value of the annual deficit reduction contribution with a corresponding reduction to the pension scheme liability. In the year, the deficit reduction contribution was £13.2m (2017: £13.0m). The balance of the pension contribution as at 31 January 2018 was £187.5m (2017: £190.1m) and is repayable over 25 years up to 2038.

At 31 January 2018, the Company also had a intercompany receivable balance due from the Scottish Limited Partnership of £111.4m (2017: £82m) bringing the total amount receivable to £679.0m (2017: £650.2m).

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

23 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial liabilities comprise the defined benefit pension deficit and trade and other payables. The provisions for unearned premiums and trade and other payables are working capital for the Company's Roadside Assistance activity. The Company's principal financial assets are cash and trade debtors.

The Company is exposed to market risk, credit risk and liquidity risk. The Company's senior management oversees the management of these risks, supported by the AA plc group (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 Directors review and agree 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 Company is exposed to is fuel price risk and the risk of changes in discount rates impacting on the defined benefit pension deficit.

The AA plc group has policies and limits approved by the Board for managing the fuel price risk exposure. The Company's policy is to partially hedge all of its exposure to variable fuel prices. The Company has therefore taken out fuel price swaps to hedge against this risk.

The Company manages the defined benefit pension deficit via the asset-backed funding arrangement as described in note 22.

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 Company is exposed to credit risk in relation to its financial assets, outstanding derivatives and trade and other receivables. The Company assesses its counterparty exposure in relation to the investment of surplus cash. The Company 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 Company 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 AA plc group's 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 Company'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 Company's maximum exposure for financial derivative instruments is noted under market risk.

Liquidity risk

Liquidity risk is the risk that the Company 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 Company'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. A maturity analysis in respect of finance leases is included in note 20.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

23 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The Company's most significant long-term obligation is the defined pension deficit which is secured as part of an asset backed funding scheme, see note 22. In addition, the Company has finance lease obligations due over the medium term as shown in note 20. The majority of other obligations are short-term in nature and are managed as part of overall working capital and cash balances.

Capital management

The Company considers its capital to be its share capital and reserves:

	£m
Share capital	0.1
Reserves	1,286.2
Total capital	1,286.3

The Company's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to generate cash flows in order to pay dividends to its shareholder;
- 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;

The Company manages its capital by generating significant cash flows which are converted to reserves.

24 SHARE BASED PAYMENTS

	2018 £m	2017 £m
Share-based payments – MVP shares	3.9	7.7
Share-based payments - LTBP	1.0	2.0
Share-based payments - Retention	0.1	-
Share-based payments - staff share incentive plan	1.9	1.8
	6.9	11.5
Share based payments – MVP shares – exceptional item	(7.1)	-
Total share based payments	(0.2)	11.5

Management value participation shares (MVP shares)

On 23 June 2014, the AA plc group 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 Employee Benefit Trust (EBT) 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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

24 SHARE BASED PAYMENTS (continued)

The MVP share-based payments are equity settled. The following table illustrates the number and fair value of the MVP shares awarded:

	Vesting Date	2018 No. of shares	2017 No. of shares	2018 Fair value per share £	2017 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		

Unvested A1 and A2 shares can also be converted on the fourth or fifth anniversary of admission and unvested B1 and B2 shares can also be converted 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 has the right to request transfer (and failing compliance, transfer itself) all those MVP shares for a total consideration of 1 penny. The AA plc group issued the transfer notice on 9 March 2018 and transferred the shares on 16 April 2018 to its Employee Benefit Trust. As per IFRS 2, the share-based payment charge in relation to his shares, has been reversed resulting in a credit to exceptional operating items in the income statement of £7.1m and a corresponding debit to equity.

Long Term Bonus Plan (LTBP)

As at 31 January 2018, the Company's EBT had issued 4 million conditional awards over market-purchased ordinary shares 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 Total Shareholder Return (TSR) performance condition of 12% per annum compound growth against the admission prices which is tested on the third, fourth and fifth anniversaries of admission to the London Stock Exchange and satisfaction of certain individual performance targets.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

24 SHARE BASED PAYMENTS (continued)

If the awards over A shares do not vest on the third or fourth anniversary of admission, then they are retested on the fourth and 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 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	2018 No. of shares	2017 No. of shares	2018 Weighted fair value per share £	2017 Weighted fair value per share £
A shares	26 June 2017	873,423	1,004,896	2.49	2.56
B shares	26 June 2018	859,069	993,060	1.98	2.07
C shares	26 June 2019	842,036	987,340	1.54	1.62
Total		2,574,528	2,985,296		

The number of ordinary shares over which awards are held has reduced by 410,768 due to leavers during the financial year. The difference between the 4 million issued awards and the current number of outstanding awards is due to leavers.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

24 SHARE BASED PAYMENTS (continued)

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 Total Shareholder Return (TSR) performance condition of 12% per annum compound growth against the issue price which is tested on 6 November 2018 and/or 6 November 2019 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:

		2018	2017	2018	2017
		No. of	No. of	fair value	fair value
Vesting Date		shares	shares	per share	per share
				£	£
Tranche 1	6 November 2018	914,230	-	0.87	-
Tranche 2	6 November 2019	914,230	-	0.57	-
Total		1,828,460	-		

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

24 SHARE BASED PAYMENTS (continued)

Staff share incentive plans

The Company has a number of all employee Share Incentive Plans (SIP). Under the SIP, employees are able to buy Partnership shares by making weekly or monthly payments into the SIP. In addition, for every Partnership share an employee purchases the Company will match this on a 1:1 basis (Matching Shares).

The SIP share-based payments are equity settled. The following table illustrates the fair value and vesting period of the SIPs:

Share type	Award date	Vesting date	No. of shares 2018 ¹	Weighted fair value per share £
2015 SIP				
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 SIP				
Matching shares	See below	See below	1,366,211	2.20
2017 SIP				
Matching shares	See below	See below	1,727,537	1.64
Total			7,359,280	

¹ The number of shares shown above is the estimated number

The SIPs are valued using a Black Scholes model.

The expected volatility reflects the assumption that the historical volatility is indicative of future trends which may not necessarily be the actual outcome.

SIP shares were issued on the 11th of each month with the vesting period of 36 months from the date they were issued.

Performance Share Plan (PSP)

During the year awards were granted under the PSP scheme to the Chief Executive Officer and other members of Senior Management. As at 31 January 2018, no performance criteria had been set for these shares and therefore, as there was no shared understanding of the terms of the scheme, no IFRS 2 charge has been made.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

25 RELATED PARTY TRANSACTIONS

Transactions with other subsidiaries in the AA plc group:

Automobile Association Insurance Services Limited (AAISL) is an entity under common control and is the broker appointed by the Company to sell its regulated consumer breakdown assistance service. Until June 2015, the Company paid the broker a commission of £0.5m (2017: £4.0m), for policies incepted from June 2015, AAISL receives an Administration & Arrangement Fee (AAF) directly from the customer and therefore no further commission will be received. The Company collects all of the AAF from the customer on behalf of AAISL.

The Company is the principal employer for the AA plc group. Staff costs including pension contributions and national insurance are charged directly to the group company benefitting from the employees' services. In the current year, this was £110.4m (2017: £114m).

A share-based payments gain of £0.2m (2017: payment of £11.5m) was incurred by the Company (see note 24) in relation to its employees. In order to support the purchase of shares to satisfy some of the future obligations of the scheme, the Company has loaned £8.0m (2017: £8.0m) to AA plc.

As the principal employer for the AAUK pension scheme (see note 21), the Company entered into an asset backed funding scheme in November 2013. Further details on this arrangement is given in note 22.

AA Corporation Limited, the Company's parent undertaking, incurs all of the corporate costs for the group including the Executive, IT, finance, HR and legal. These costs are then charged to the key trading entities of the AA Corporation Limited group. The Company incurred recharged costs of £43.8m including £3.7m of exceptional costs (2017: £40.5m including £6.7m of exceptional costs).

The Company sweeps all of the cash receipts for the UK entities in the AA Intermediate Co Limited group and makes funds available to pay any liabilities for that group including interest on borrowings as they become due. Trading balances for some subsidiaries of AA Corporation Limited are settled through AA Corporation Limited at the end of each month.

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

Entity	Relationship	2018 £m	2017 £m
AA Corporation Limited	Parent	387.2	411.4
AA Senior Co Limited	Indirect parent	306.7	306.8
AA Intermediate Co Limited	Indirect parent	(13.7)	(13.7)
AA Mid Co Limited	Indirect parent	20.2	20.3
AA plc	Indirect parent	8.2	8.0
AA Acquisition co Limited	Indirect parent	(0.1)	(0.1)
AA Bond Co Limited	Fellow subsidiary	53.7	55.5
The Automobile Association Limited	Fellow subsidiary	-	(0.8)
AA Media Limited	Fellow subsidiary	-	0.7
Automobile Association Insurance Services Limited	Fellow subsidiary	(2.5)	0.5
DriveTech (UK) Limited	Fellow subsidiary	-	-
Breakdown Hero	Fellow Subsidiary	-	0.3
AA Technical Solutions Limited	Fellow Subsidiary	0.1	-
AA Underwriting Insurance Company Limited	Fellow Subsidiary	(11.8)	-
AA Pension Funding LP	Subsidiary	679.0	650.2
AA Brand Management Limited	Subsidiary	(322.3)	(246.6)
		1,104.7	1,192.5

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

25 RELATED PARTY TRANSACTIONS (continued)

Transactions with associates:

The following table provides the total value of transactions that have been entered into with associates during each financial year.

Associate	Nature of transaction	2018 £m	2017 £m
A.C.T.A. SA	Call handling fees paid	-	2.2
A.R.C. Europe SA	Registration fees paid	3.6	1.0

Note that the Company's interest in ACTA SA was sold in the year, see note 12.

26 GROUP UNDERTAKINGS

All subsidiaries are wholly owned and incorporated and registered in the United Kingdom.

Name
AA Pension Funding LP ^{1,3}
Automobile Association Underwriting Services Limited ^{1,2}
AA Pension Funding GP Limited ^{1,3}
Personal Insurance Mortgages and Savings Limited ^{1,2}
Automobile Association Protection and Investment Planning Limited ^{1,2}
AA Brand Management Limited ^{1,2}
AA Pensions Trustees Limited ^{1,2}
Automobile Association Insurance Services Holdings Limited ^{1,2}
AA Financial Services Limited ²
AA The Driving School Agency Limited ^{1,2}
Automobile Association Holdings Limited ^{1,2}
AA Underwriting Limited ²
AA Road Services Limited ^{1,2}
Automobile Association Services Limited ^{1,2}
AA Garage Services Limited ^{1,2}

¹ Directly owned by Automobile Association Developments Limited, all other subsidiaries are indirectly held.

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

³ Company registered office: 50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, Scotland.

Joint ventures

Company	Country of registration	Nature of business
Intelematics Europe Limited (32% interest held)	England	Intelematics

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

27 KEY MANAGEMENT COMPENSATION

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the AA plc group and are employed by the Company.

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:

	2018 £m	2017 £m
Short-term employee benefits	5.1	4.7
Share-based payments	(2.1)	6.0
Total compensation paid to key management personnel	3.0	10.7

28 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.theaapl.com/investors.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

29 ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS

New accounting standards, amendments and interpretations adopted in the year

In the year ended 31 January 2018, the Group did not adopt any new standards or amendments issued by the IASB or interpretations issued by the IFRS Interpretations Committee (IFRS IC) that have had a material impact on the consolidated financial statements. Other new standards, amendments and interpretations adopted, that have not had a material impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements, were:

- IAS 1: Disclosure Initiative
- Annual Improvements to IFRS 2012-2014
- IFRS 11: Accounting for Acquisitions of Interests in Joint Operations

New accounting standards, amendments and interpretations not yet adopted

A number of new standards, amendments and interpretations, which have not been applied in preparing these financial statements, have been issued and are effective for annual reports beginning after 1 February 2017:

	Effective date
• IFRS 15: Revenue from Contracts with Customers	1 January 2018
• IFRS 9: Financial Instruments	1 January 2018
• IFRS 2: Classification and Measurement of Share Based Payment Transactions - Amendments to IFRS 2	1 January 2018
• IFRS 16: Leases	1 January 2019
• IFRS 17: Insurance Contracts	1 January 2021

Management has completed a detailed impact assessment ahead of the implementation of of IFRS 9, IFRS 15 and IFRS16.

IFRS 9

Management's analysis has focused on receivables and hedging.

It has been concluded that there will not be a material change to receivables as a result of the new standard and there will be no change to the Group's hedging policy.

IFRS15

Management have performed a detailed analysis of each Company revenue stream, with particular focus on our bundling arrangements and variable consideration. We do not believe that the conversion to IFRS 15 will lead to a material impact on the timing or value of revenue in any given period.

Management do anticipate a requirement for a more detailed disclosure providing greater disaggregation of our different revenue streams into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

IFRS 16

Management expects the adoption of IFRS 16 to have a significant impact on the Company due to the number of property leases. The Company 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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

29 ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (continued)

The initial impact assessment indicates that the adoption of IFRS 16 will result in:

- an additional finance lease liability of c.£13m
- a tangible fixed asset of £7m - £9m, (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.£1m 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. The final impact of adoption of IFRS 16 cannot be determined before 1 February 2019.

The Company is currently assessing whether the other standards listed above will have a material impact on the financial statements for the year ended 31 January 2019.

30 PRIOR PERIOD ADJUSTMENT

The prior year adjustment reflects correction of an error in the presentation of the intercompany receivable due as a result of the Asset Backed Funding (ABF) arrangement to correctly split the balance between current receivables and non-current receivables.

The prior year restatement comprised a reallocation of £538.9m from current to non-current assets. There was no impact on the net asset position.

31 POST BALANCE SHEET EVENTS

Bob Mackenzie Litigation

On 7 March 2018, the AA plc Group received notification that former Executive Chairman, Bob Mackenzie, who was dismissed for gross misconduct on 1 August 2017, had on 6 March 2018 issued a Claim Form in the High Court, Chancery Division against AA plc, Automobile Association Developments Limited and personally against a number of their Directors and the Company Secretary. The Claim Form seeks a permanent injunction to retain his MVP shares and up to £225m in damages. As this litigation is active at the date of signing these company financial statements, the directors of the Company have considered any potential financial impact. The Company has not made a provision for these amounts as the AA plc Group expects to be successful in rigorously defending these claims. However, the AA plc Group will incur legal costs of approximately £1m to defend these claims during the next two financial years which it would seek to recover from Bob Mackenzie when the litigation concludes.