

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2019

Registered number: 01878835

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

FOR THE YEAR ENDED 31 JANUARY 2019

STRATEGIC REPORT

The directors present their report and audited financial statements of Automobile Association Developments Limited ("the Company") for the year ended 31 January 2019.

PRINCIPAL ACTIVITIES 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.

ROADSIDE

Roadside includes Roadside Assistance and Roadside Other.

Roadside Assistance performance is driven by the AA plc group's personal membership base and supported by our business customer (B2B) base, underpinning the scale of our operations which is critical to the success of the company.

Each provide approximately half the jobs for the 3,000-strong patrol force.

We have 2,412 driving instructors in our franchised driving schools, the AA and BSM, providing driving lessons for approximately 80,000 learners each year.

	2019	2018
Trading Revenue (£m)	611.0	598.1
Trading EBITDA (£m)	70.6	118.5
Trading EBITDA margin (%)	11.6	19.8
Personal Members excluding free Memberships (000s) which are serviced by the Company	3,206	3,289
Average AA plc group income per personal Members excluding free Memberships (£)	162	157
Business customers (000s)	9,793	9,928
Average income per Business customer (£)	21	20
Number of breakdowns ('000s)	3,730	3,679
Number of driving instructors	2,412	2,742

Trading Revenue grew 2.3% to £610.9m driven by growth in pay-for-use B2B revenue. Trading EBITDA declined by 40.4% to £70.6m primarily reflecting additional strategic investment expenditure. Trading EBITDA margin decreased from 19.8% to 11.6% reflecting the EBITDA decline.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

FOR THE YEAR ENDED 31 JANUARY 2019

STRATEGIC REPORT (continued)

Roadside Assistance

Paid personal memberships declined 2.4% to 3.21m and retention fell by 1.6% to 80.3%. The decline in paid personal memberships was principally due to the decision to re-phase our summer marketing campaign, as well as the impact of regulatory pressures and continued competitor activity. Looking ahead, improvements to the wider AA plc group's membership offering, a fully invested marketing plan, the completion and implementation of the new membership IT system (CATHIE) as well as ongoing improvements to the 'Stay AA' customer retention proposition are expected to lead to improved retention rates and a growing paid membership base over the medium term.

Average AA plc group income per paid member rose 3.2% to £162 (2018: declined 0.6% to £157). The increase, which is broadly in line with inflation, includes the increase in the proportion of new personal members taking up monthly subscriptions and improved product mix.

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

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

Roadside Other

Trading Revenue for Roadside other fell by £3.2m to £29.8m due largely to a change in instructor franchise mix in our Driving Schools business designed to increase our competitiveness. The 12.0% decrease in driving instructor franchises to 2,412 (2018: 2,742) was the result of the removal of the lower-margin 'Solo' franchise channels. Under new leadership, we are currently developing strategies to grow the Driving Schools business including the digitisation of the booking platform for new drivers. This will be a key enabler as we look to use the Driving Schools business as a growth channel.

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FOR THE YEAR ENDED 31 JANUARY 2019

STRATEGIC REPORT (continued)

Other

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 £13.6m. 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 agreed a nine-year deficit recovery additional funding plan with the Trustee, taking into account the continued funding of the previous deficit. We agreed 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 2019 financial year was £21.3m. The next triennial actuarial review is scheduled as at 31 March 2019.

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 £70.6m (2018: £118.5m).

Profit before tax decreased to £12.8m (2018: £97.1m) due principally to the prior year one off pension past service credit (see note 5) of £33.9m compared to the pension past service cost of £21.6m in the current year.

The balance sheet shows the Company's financial position at the year end. Overall equity decreased by £84.1m to £1,202.1m (2018: £1,286.2m).

DIVIDENDS

The Company paid a dividend of £129.4m during the year (2018: £214.9m).

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STRATEGIC REPORT (continued)

RISK MANAGEMENT FRAMEWORK

Our Risk Management Framework Policy requires the following:

- All areas of the business to maintain a risk register which is to be reviewed at least quarterly
- Each senior member of the Management team has his/her own set of "Top Risks" which are reviewed each month
- Risks from this "bottom up" risk identification exercise are linked to the principal risks identified by the AA plc board
- Each risk register 'owner' is required to formally self-certify the completeness and correctness of their risk register(s) on a quarterly basis.

Principal risks

The Directors have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. Inputs to the assessment include strategic objectives, internal and external factors, and the risks identified by management. These principal risks have been monitored and updated by the AA plc Risk Committee during the year. These risks are detailed below together with the key mitigating actions / controls, a summary of changes during the year and the primary key performance indicators (KPIs).

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STRATEGIC REPORT (continued)

Principal Risks	Description	Mitigation	Change in the year	Impact, likelihood and trend
<p>1. Outstanding service: We are unable to maintain an outstanding service</p> <p>Primary KPIs:</p> <ul style="list-style-type: none"> • Breakdowns attended • Response times • Percentage of completed repairs at the roadside 	<p>The AA's brand and its continued success, and in particular the loyalty of its customers, relies on delivering outstanding service that is superior to the rest of the market. Inadequate investment in technology, systems, people and processes would place this objective at increasing risk.</p>	<p>Over the course of the last year the AA plc group has invested in more patrols, contact centre agents and training and support to ensure we are well placed to provide a premium service to our customers throughout the year. The AA plc group has also made a number of foundational improvements in underlying systems and technology in order to improve stability and resilience.</p> <p>Ongoing monitoring of complaints, press reports and social media through structured processes, including first line business assurance and compliance and risk oversight, helps inform our service performance and offerings.</p>	<p>Work continues to increase the flexibility of the patrol force, reduce costs and improve customer service.</p>	<p>Delivering outstanding service is fundamental to our future and our brand. The impact of failure to deliver the best service in the market would be very high. The actions AA plc has taken to increase the flexibility of the patrol force, increase contact centre capability and improve our forecasting will reduce the probability of this risk crystallising.</p> <p>Inclement weather, will always have an impact on demand and we continue to learn lessons from these events, in order to better respond to customer demand and to make sure we are in the best position to deal with significant weather extremes.</p>
<p>2. Roadside market share and margin: We are unable to maintain our market share and an ability to command a price premium on our roadside services</p> <p>Primary KPIs:</p> <ul style="list-style-type: none"> • Paid personal members • Business customers • Average income per member • Average income per business customer 	<p>Competitors that provide roadside services at a lower price or have a different business model, together with changes in car technology, threaten our market share. If we charge a price premium that is above that which our service can sustain, we will not grow our member or B2B customer base and, in the long-term, sustainably grow profits. We need to improve, innovate, demonstrate and deliver a superior proposition and ensure our pricing is competitive relative to this position. We also need to ensure our pricing practices are in line with the expectations of our customers and regulators.</p>	<p>We are continuing to improve our roadside membership proposition by strengthening our roadside product offerings and engaging more members in additional benefits.</p> <p>We have improved our communications with both new and existing members, engaging members in their existing services and benefits to drive loyalty.</p> <p>The AA plc group pricing team has significant expertise to monitor market pricing levels and ensure we are treating both new and loyal customers fairly whilst remaining competitive.</p>	<p>Car Genie, the AA plc group's Connected Car product, has been deployed through a number of channel offerings and will continue to be piloted alongside existing products or in new products.</p>	<p>Long-term the AA will find it challenging to grow profit sustainably if its membership is declining. Therefore, the impact of membership growth is critical in the long-term, as is maintaining key business relationships such as the Lloyds Banking Group and TSB contracts which renewed in 2019, and other B2B contracts, including major car manufacturers.</p> <p>Membership has remained relatively stable in the last 12 months.</p> <p>The business is focused on realising a sustainably growing membership and recognises the need for a more distinctive and differentiated offering to mitigate competitive pressures.</p>

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STRATEGIC REPORT (continued)

Principal Risks	Description	Mitigation	Change in the year	Impact, likelihood and trend
<p>3. Regulatory and legal environment: A changing regulatory environment may adversely affect our activities</p> <p>Material litigation against the AA</p> <p>Primary KPIs:</p> <ul style="list-style-type: none"> • none 	<p>The changing regulatory environment could cause currently compliant services to become non-compliant, with material implications to customer offerings, pricing and profitability.</p> <p>Failure to comply with regulatory obligations could result in fines and reputational damage.</p> <p>Changes in Government legislation or taxation could impact the business model.</p>	<p>The AA has a zero appetite for systemic non-compliance with legal and regulatory requirements.</p> <p>Close engagement with regulatory objectives is coupled with good governance and strong monitoring processes to ensure that we continue to focus on delivering products and services that result in good customer outcomes.</p> <p>The AA plc group's Regulatory and Legal Change Committee tracks forthcoming changes and advises the business on changes required.</p> <p>Products are reviewed regularly to reaffirm they are fit for purpose.</p> <p>The AA has in house Legal and Compliance teams and also takes external legal advice.</p>	<p>Implementation of General Data Protection Regulation (GDPR) requirements has seen a significant change to business processes.</p>	<p>As in previous years the regulatory environment continues to be dynamic with a continuing and demanding programme of regulatory initiatives. These additional requirements may drive further commoditisation into the market at the expense of superior service differentiation.</p> <p>Continued increases in IPT could make insurance products, including Roadside Assistance, less affordable for our customers. The output of the FCA's review of pricing practices could have an impact on product offerings and profitability.</p> <p>Regulatory and legal issues remain a key focus of the Board and of the management team.</p>
<p>4. Information security/Cyber crime/Data breach: We are unable to protect ourselves from a significant data breach or cyber security incident</p>	<p>The integrity of critical information is corrupted, resulting in it not being available where and when it is needed, or the confidentiality of commercially sensitive, private or customer information is compromised by inappropriate disclosure or a serious data breach occurs.</p>	<p>The AA has an ongoing programme of security improvements to maintain a suitable level of security for the increasingly sophisticated world-wide cyber threats. Controls include information security awareness training, preventative and detective security, a specialist information security team, and information security requirements being included in third party arrangements.</p> <p>The AA benchmarks its security controls against the Standard for Information Security (ISO27001).</p>	<p>Progress has been made in the year to enhance the AA plc group's IT security and defences against cyber crime and reduce exposure to third party risk. However, firms continue to fall victim to cyber attacks.</p> <p>We consider cyber risk to be an ever emerging/evolving risk and through our ongoing programme of improvement we will continue to take additional steps to improve our controls, taking guidance from external specialists.</p>	<p>As for any company the impact of this risk crystallising could be substantial.</p>

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

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STRATEGIC REPORT (continued)

Principal Risks	Description	Mitigation	Change in the year	Impact, likelihood and trend
<p>5. Business & IT transformation: We are unable to successfully complete essential business transformation</p>	<p>We must continue to transform the AA to achieve the required efficient customer-centric services and to develop the business.</p> <p>Although much has been achieved in FY19 there remains much to do and the required improvements to process, embedded ways of working and culture, inherently involves risks in a customer facing service environment.</p>	<p>There is an ongoing cost efficiency and process improvement programme in place with progress tracked at regular Management Business Reviews.</p> <p>A rigorous approach is taken in implementing changes to achieve satisfactory control, with ongoing monitoring and reporting.</p> <p>We have a talent management model in place, where skills gaps are identified and development and/or recruitment initiatives are actioned.</p>	<p>In line with the strategy, transformation investment and effort has been focused across core areas including Digital/Connected Car, Data, IT and our core P&Ls, with projects aligned to both strategic enablement and EBITDA generation.</p> <p>Continued investment in our IT systems has improved our productivity and marketing and digital capabilities.</p> <p>The AA has invested in people to effectively manage transformation in the business, including the recruitment of a new Chief Innovation Officer, and a dedicated transformation team.</p>	<p>Strong management capability and oversight have been put in place to better manage this risk.</p>

ON BEHALF OF THE BOARD

M.W. Strickland

M W STRICKLAND
DIRECTOR

28 June 2019

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

FOR THE YEAR ENDED 31 JANUARY 2019

DIRECTORS' REPORT

DIRECTORS

The directors who held office during the year, and up to the date of signing the financial statements (unless otherwise stated) were as follows:

S J Breakwell	
M A Clarke	(Resigned 29 April 2019)
G R Kirkwood	
M W Strickland	
M F Millar	(Resigned 17 April 2018)
M Lloyd	(Resigned 25 May 2018)

Company secretary

M F Millar	(Resigned 17 April 2018)
C M Free	(Appointed 17 April 2018, Resigned 2 July 2018)
N Hoosen	(Appointed 2 July 2018)

Automobile Association Developments Limited is a Limited Company registered and domiciled in England and Wales, registered address Fanum House, Basing View, Basingstoke, Hampshire, RG21 4EA.

DIRECTORS' INDEMNITY

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

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FOR THE YEAR ENDED 31 JANUARY 2019

DIRECTORS REPORT (continued)

Our people

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

The most significant areas which impact this risk are:

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

These areas are controlled through our policies and processes as well as the monitoring of our management and control strategies through regular reviews with the Senior Management Team. Both internal and external audits are undertaken as part of the ISO certifications relating to our road operations. We have undertaken significant work to address these risks throughout the year ended 31 January 2019, as detailed below.

Supporting health in the workplace

Providing support for employee health and wellbeing is important to our people strategy and demonstrates how we are helping to deliver UNSDG3 Good Health and Wellbeing. This year, we have continued our focus on the wellbeing of our employees. We have appointed a new occupational health (OH) partner who provides an end-to-end support service including occupational health referrals, triage and assessment, alongside tailored solutions. Examples of this include the provision of cognitive behavioural therapy, physiotherapy and surgical interventions if required. Our occupational health referrals have increased year on year which was expected due to our increased focus.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

FOR THE YEAR ENDED 31 JANUARY 2019

DIRECTORS REPORT (continued)

Promoting health and wellbeing

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

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

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

Attracting talent to our business

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

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

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

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

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

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DIRECTORS REPORT (continued)

Military Covenant

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

Engagement with our people

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

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

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

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

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

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

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

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

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DIRECTORS REPORT (continued)

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

Developing a high-performance culture

This year, we have brought all our learning and development courses and programmes under one roof, creating the AA Academy. This is part of our plan to transform the AA's culture from training to learning. The Academy is open to all employees and uses an approach known as 70:20:10, where 70% of learning takes place on-the-job, 20% of learning comes from others, and 10% from formal training courses.

Apprenticeships

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

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

All employees:

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

Patrols:

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

Office employees:

- Workstation use and set up

Managers:

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

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DIRECTORS REPORT (continued)

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

Diversity

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

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

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

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

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

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

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

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DIRECTORS REPORT (continued)

GOING CONCERN

The Company's business activities and its exposure to financial risk are described in the strategic report on pages 1-7.

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.

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

BY ORDER OF THE BOARD

M.W. Strickland

M W STRICKLAND
DIRECTOR

28 June 2019

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

Independent auditors' report to the members of Automobile Association Developments Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 January 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

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

Strategic Report and Directors' Report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements set out on page 8, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Stuart Newman

Stuart Newman (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
28 June 2019

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 JANUARY

	Note	2019 £m	2018 £m
Revenue		611.0	598.1
Cost of sales		(346.0)	(315.4)
GROSS PROFIT		265.0	282.7
Administrative & marketing expenses		(271.7)	(199.9)
OPERATING (LOSS) / PROFIT	4	(6.7)	82.8
Finance income	8	29.1	29.2
Finance costs	9	(9.6)	(14.9)
PROFIT BEFORE TAX		12.8	97.1
Tax credit / (expense)	10	1.8	(15.0)
PROFIT FOR THE FINANCIAL YEAR		14.6	82.1

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

	2019 £m	2018 £m
PROFIT FOR THE YEAR	14.6	82.1
OTHER COMPREHENSIVE INCOME / (EXPENSE) 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)
	-	(0.2)
OTHER COMPREHENSIVE INCOME ON ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT AND LOSS IN SUBSEQUENT YEARS		
Remeasurement on gains on defined benefit pension schemes (see note 21)	31.4	116.7
Tax effect	(5.3)	(19.8)
	26.1	96.9
TOTAL OTHER COMPREHENSIVE INCOME	26.1	96.7
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	40.7	178.8

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

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

STATEMENT OF FINANCIAL POSITION AT 31 JANUARY

	Note	2019 £m	2018 £m
NON-CURRENT ASSETS			
Intangible assets	13	19.9	17.1
Investments in subsidiaries	12	504.7	504.7
Investment in joint ventures and associates	12	1.9	1.9
Trade and other receivables	16	-	537.7
Property, plant and equipment	14	103.0	107.1
Deferred tax asset	11	6.8	9.2
		<u>636.3</u>	<u>1,177.7</u>
CURRENT ASSETS			
Inventories	15	4.3	3.9
Trade and other receivables	16	1,159.4	985.4
Current tax receivable		17.6	20.7
Cash and cash equivalents		8.6	31.2
		<u>1,189.9</u>	<u>1,041.2</u>
TOTAL ASSETS		<u>1,826.2</u>	<u>2,218.9</u>
CURRENT LIABILITIES			
Trade and other payables	17	(395.1)	(668.4)
Provisions	19	(1.4)	(9.3)
		<u>(396.5)</u>	<u>(677.7)</u>
NON-CURRENT LIABILITIES			
Finance lease obligations	20	(11.9)	(15.9)
Defined benefit pension scheme net liabilities	21	(211.6)	(233.9)
Deferred income		(0.9)	(1.0)
Provisions	19	(3.2)	(4.2)
		<u>(227.6)</u>	<u>(255.0)</u>
TOTAL LIABILITIES		<u>(624.1)</u>	<u>(932.7)</u>
NET ASSETS		<u>1,202.1</u>	<u>1,286.2</u>
EQUITY			
Share capital	18	0.1	0.1
Cash flow hedge reserve		(0.1)	(0.1)
Retained earnings		1,202.1	1,286.2
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS		<u>1,202.1</u>	<u>1,286.2</u>

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

M.W. Strickland

M W STRICKLAND
DIRECTOR

28 June 2019

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	Cashflow hedge reserve	Retained earnings	Total
	£m	£m	£m	£m
At 1 February 2017	0.1	0.1	1322.3	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
Profit for the year	-	-	14.6	14.6
Other comprehensive income	-	-	26.1	26.1
Total comprehensive income	-	-	40.7	40.7
Dividends	-	-	(129.4)	(129.4)
Share-based payments	-	-	4.6	4.6
At 31 January 2019	0.1	(0.1)	1,202.1	1,202.1

The dividend paid per share is £1,294 (2018: £2,148).

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

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 31 JANUARY

	2019 £m	2018 £m
Profit before tax	12.8	97.1
Amortisation and depreciation	40.4	36.8
Net finance income	(19.5)	(14.3)
Impairment of goodwill	-	7.6
Share-based payments	4.6	(0.2)
Profit on disposal of fixed assets	(1.4)	-
 Working capital:		
(Increase)/decrease in trade and other receivables	(8.4)	0.6
Increase in stock	(0.4)	-
Increase in trade and other payables	98.6	83.7
Decrease in provisions	(8.9)	(2.7)
Difference between pension charge and cash contributions	3.6	(42.9)
Total working capital adjustments	84.5	38.7
Net cash flows from operating activities before tax	121.4	165.7
Tax credit/(paid)	2.0	(23.5)
Net cash flows from operating activities	123.4	142.2
Investing activities		
Capital expenditure	(19.1)	(20.6)
Proceeds from sale of fixed assets	12.3	16.2
Interest received	29.0	29.2
Net cash flows used in investing activities	22.2	24.8
Financing activities		
Payment of finance lease capital	(34.8)	(37.3)
Payment of finance lease interest	(4.0)	(4.4)
Dividends paid	(129.4)	(214.9)
Net cash flows from financing activities	(168.2)	(256.6)
Net decrease in cash and cash equivalents	(22.6)	(89.6)
Cash and cash equivalents at 1 February	31.2	120.8
Cash and cash equivalents at 31 January	8.6	31.2

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 Standards Interpretation Council (IFRS IC) 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 as modified by the measurement of derivatives and liabilities.

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

The Company has taken advantage of the 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 publicly available.

a) Going concern

The Company's operations are highly cash generative with a large proportion of its revenues coming from recurring transactions. The significant customer loyalty demonstrated by high renewal rates and lengthy customer tenure underpins this. The Directors have reviewed projected cash flows for a period of one year from the date of signing these financial statements and have concluded that the Company has sufficient funds to continue trading for this period and the foreseeable future. Therefore, the financial statements have been prepared using the going concern basis.

1.3 Accounting policies

a) 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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1.3 Accounting policies (continued)

b) Revenue recognition

Revenue is recognised on a point in time basis at the point of delivery of goods or on the provision of service, or over time where the service is provided over more than 1 day. This includes work which has not yet been fully invoiced, provided that it is considered to be fully recoverable.

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 on a point in time basis at the point the related performance obligation is satisfied, or over time where the performance obligation is satisfied over time. This includes work which has not yet been fully invoiced, provided that it is considered to be fully recoverable.

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

c) 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.

d) 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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1.3 Accounting policies (continued)

e) 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.

f) 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
Leasehold properties	over the period of the lease up to 50 years maximum
Equipment and vehicles	3 - 20 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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1.3 Accounting policies (continued)

g) Investments in group undertakings, joint ventures and associates

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.

An associate is an entity over which the Company is in a position to exercise significant influence, but not control or joint control, through participating in the financial and operating policy decisions of the entity. Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

h) 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.

i) Inventory

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

j) 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

1.3 Accounting policies (continued)

k) 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.

l) 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

1.3 Accounting policies (continued)

m) 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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1.3 Accounting policies (continued)

n) Financial instruments

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

Trade receivables

Trade receivables are amounts due from customers for goods or services performed in the ordinary course of business. They are generally due for settlement within 30 days and are therefore all classified as current. Trade receivables are recognised at fair value and are subsequently held at amortised cost. The Company applies the IFRS 9 simplified approach to measuring ECLs which uses a lifetime expected loss allowance for all trade receivables.

Trade payables

Trade payables are not interest bearing and are recognised at fair value and are subsequently held at amortised cost.

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.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the cash flow hedge reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

In the same period or periods during which the hedged expected future cash flows affects profit or loss, the associated cumulative gain or loss on the hedged forecast transaction is removed from equity and recognised in the income statement.

When the hedging instrument is sold, expires, is terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1.3 Accounting policies (continued)

o) 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.

p) Exceptional items

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

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

2 SEGMENTAL INFORMATION AND REVENUE DISAGGREGATION

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 Company's key performance measures of Trading Revenue and Trading EBITDA as well as operating profit before exceptional costs.

Exceptional items, net finance costs and tax expense are not allocated to individual segments as they are managed on a group basis.

Segmental information is not presented for items in the statement of financial position as management does not view this information on a segmental basis.

Disaggregation of revenue:

	2019 £m	2018 £m
Roadside:		
Consumer (B2C)		
Insured contracts	320.0	318.4
Pay for use contracts ¹	47.2	45.6
Business Services (B2B)		
Insured contracts	36.0	36.8
Pay for use contracts ¹	178.0	164.3
Roadside other	29.8	33.0
Total Roadside	611.0	598.1

¹ Pay for use contracts relate to contracts that take into account the number of breakdowns.

Roadside B2C and B2B mostly consists of revenue from roadside membership subscriptions.

Roadside other primarily relates to the driving school business and revenue from warranties and inspections.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3 ADJUSTED PERFORMANCE MEASURES AND OPERATING PROFIT

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

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

Reconciliation of Trading Revenue to revenue

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

Revenue represents amounts receivable for goods and services provided, excluding value added tax and trade discounts. Revenue is recognised on a point in time basis at the point of delivery of goods or on the provision of service, or over time where the service is provided over more than 1 day.

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

	Note	2019 £m	2018 £m
Trading EBITDA		70.6	118.5
Share-based payments	25	(4.6)	(6.9)
Pension service charge adjustment		(5.0)	(10.4)
Amortisation and depreciation	13, 14	(40.4)	(36.8)
Exceptional operating items	5	(27.3)	18.4
Operating (loss) / profit	4	(6.7)	82.8

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

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

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4 OPERATING (LOSS) / PROFIT

Operating (loss) / profit is stated after charging:

	2019	2018
	£m	£m
Amortisation of owned intangible assets	4.5	4.5
Operating lease rentals payable:		
- Land & buildings	1.1	1.7
Depreciation of		
- Owned assets	11.4	8.1
- Under finance leases	24.5	24.2
Brand royalty payment (see note 22)	76.7	75.9
Corporate recharge	59.2	43.8

Auditors' remuneration in respect of the audit of the Company's financial statements for the year ended 31 January 2019 amounted to £245,000 (2018: £250,000). The Company's auditor provided no services to the Company other than the annual audit during either the current or prior year.

5 EXCEPTIONAL ITEMS

	2019	2018
	£m	£m
Pension past service cost / (credit)	21.6	(33.9)
Impairment of goodwill	-	7.6
Other exceptional operating items	5.7	8.8
Duplicate cover	-	(0.9)
	27.3	(18.4)

During the year the Group recognised a one-off pension past service cost of £21.6m as a result of Guaranteed Minimum Pension (GMP) equalisation (see note 21).

Exceptional operating costs in the year ended 31 January 2019 comprise a recharge of group exceptional costs of £5.4m, a gain on disposal of fixed assets of £1.4m, onerous lease provision of £0.6m, corporate transactions of £0.1m and Business and IT rationalisation and transformation of £1.0m.

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

The pension past service credit of £33.9m was as a result of the benefit changes implemented during the prior 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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

6 STAFF COSTS

Staff costs during the year were as follows:

	2019 £m	2018 £m
Wages and salaries	167.2	148.7
Social security costs	17.8	17.0
Other pension costs	21.7	26.0
Share-based payments	4.6	6.9
	211.3	198.6

The pension past service cost of £21.6m (2018: £33.9m) is excluded from retirement benefit costs above, see note 21.

The average monthly number of persons employed under contracts of service during the year was:

	2019	2018
Operational	6,148	6,028
Management and administration	1,148	1,149
	7,296	7,177

7 DIRECTORS' REMUNERATION

	2019 £m	2018 £m
Aggregate remuneration in respect of qualifying services	3.4	2.8
Money purchase scheme contributions	0.2	0.1
Compensation for loss of office	-	0.2
	3.6	3.1

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

Remuneration	1.4	0.5
Money purchase scheme contributions	0.1	0.1
	1.5	0.6

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 no (2018: 2) directors under a defined benefit scheme and 4 (2018: 4) under a money purchase scheme.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

8 FINANCE INCOME

	2019 £m	2018 £m
Bank interest receivable	0.4	0.5
Finance income in respect of ABF scheme (see note 22)	10.7	10.5
Return on investment in AA Pension Funding LP (see note 22)	18.0	18.2
	29.1	29.2

9 FINANCE COSTS

	2019 £m	2018 £m
Interest on finance leases	4.0	5.1
Net finance expense on defined benefit pension schemes	5.5	9.5
Foreign exchange loss	-	0.1
Other finance charges	0.1	0.2
	9.6	14.9

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

10 TAX (CREDIT) / EXPENSE

The tax (credit) / charge is made up as follows:

	2019 £m	2018 £m
Current tax:		
- UK Corporation Tax at 19.00% (2018: 19.16%)	0.5	9.5
- Group relief payable	0.4	0.8
- Adjustments in respect of prior periods	0.2	(1.2)
Total current tax charge	1.1	9.1
Deferred tax:		
- Origination and reversal of temporary differences	(1.8)	6.8
- Adjustments in respect of prior periods	(1.3)	(0.1)
- Rate change adjustment on temporary differences	0.2	(0.8)
Total deferred tax (credit) / charge	(2.9)	5.9
Total tax (credit) / charge on ordinary activities	(1.8)	15.0

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:

	2019 £m	2018 £m
Profit before tax	12.8	97.1
Tax at rate of 19.00% (2018: 19.16%)	2.4	18.6
Effects of:		
- Adjustments in respect of prior periods	(1.1)	(1.3)
- Expenses not deductible for tax purposes	0.3	0.2
- Adjustment in respect of share schemes	1.0	(0.5)
- Impairment of investments	-	1.5
- Rate change adjustment on temporary differences	0.2	(0.8)
- Use of group losses	(4.6)	(2.7)
Income tax (credit)/ charge reported in the income statement	(1.8)	15.0

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

11 DEFERRED TAX ASSET

Deferred tax by type of temporary difference:

	Statement of financial position		Income statement	
	2019 £m	2018 £m	2019 £m	2018 £m
Decelerated capital allowances	5.7	4.6	(1.1)	0.8
Other short term temporary differences	0.5	1.1	0.6	0.1
Pensions	2.0	4.9	(2.4)	5.0
Capital gains rolled over	(1.4)	(1.4)	-	-
Deferred tax asset	6.8	9.2	(2.9)	5.9
			£m	£m
Deferred tax asset as at 1 February			9.2	34.9
Credit / (Charge) to the profit and loss account			2.9	(5.9)
Tax expense recognised in OCI			(5.3)	(19.8)
Deferred tax asset as at 31 January			6.8	9.2

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 (2018: £0.2m) 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 31 January 2018	559.1	4.0
Additions	-	-
Disposals	-	-
As at 31 January 2019	559.1	4.0
Impairment		
As at 31 January 2018	(54.4)	(2.1)
Impairment	-	-
As at 31 January 2019	(54.4)	(2.1)
Net book value		
At 31 January 2019	504.7	1.9
At 31 January 2018	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

See note 27 for details of group undertakings held.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13 INTANGIBLE ASSETS

	Goodwill £m	Software £m	Total £m
Cost			
At 31 January 2017	7.6	33.6	41.2
Additions	-	4.4	4.4
Disposals	-	-	-
At 31 January 2018	7.6	38.0	45.6
Additions	-	7.3	7.3
Disposals	-	(6.8)	(6.8)
At 31 January 2019	7.6	38.5	46.1
Amortisation and impairment			
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
Amortisation	-	4.5	4.5
Eliminated on disposal	-	(6.8)	(6.8)
At 31 January 2019	7.6	18.6	26.2
Net book value			
At 31 January 2019	-	19.9	19.9
At 31 January 2018	-	17.1	17.1

Within software is £7.5m (2018: £1.8m) which relates to assets under construction that are not amortised. Software additions comprise £1.8m (2018: £1.8m) in relation to internally developed assets and £5.5m (2018: £2.6m) in respect of separately acquired assets.

The Company performed impairment testing at 31 January 2018. The impairment test compares the recoverable amount of the CGU to its carrying value. As a result of this review the BSM goodwill was impaired by £7.6m leaving a goodwill balance of £nil.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

14 PROPERTY PLANT AND EQUIPMENT

	Freehold properties £m	Leasehold properties £m	Equipment and vehicles £m	Total £m
Cost				
As at 31 January 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
Additions	-	1.9	40.9	42.8
Transfer	-	1.7	(1.7)	-
Disposals	-	-	(35.5)	(35.5)
As at 31 January 2019	9.4	14.4	178.4	202.2
Depreciation				
At 31 January 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)
At 31 January 2018	3.8	8.8	75.2	87.8
Charge for year	0.1	0.3	35.5	35.9
Disposals	-	-	(24.5)	(24.5)
As at 31 January 2019	3.9	9.1	86.2	99.2
Net book value				
At 31 January 2019	5.5	5.3	92.2	103.0
At 31 January 2018	5.6	2.0	99.5	107.1

The net book amount of vehicles includes £65.3m (2018: £68.2m) held under finance lease agreements. The accumulated depreciation on these assets is £44.1m (2018: £34.6m).

The net book amount of Equipment and vehicles includes £0.1m (2018: £0.1m) in respect of plant & machinery held under finance lease agreements. The accumulated depreciation on these assets is £8.0m (2018: £8.0m).

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

15 INVENTORIES

	2019 £m	2018 £m
Finished goods and goods for resale	4.3	3.9

16 TRADE AND OTHER RECEIVABLES

	2019 £m	2018 £m
Amounts receivable in more than one year		
Amounts owed by group undertakings	-	537.7
Amounts receivable within one year		
Trade receivables	47.4	40.3
Amounts owed by group undertakings	1,083.0	917.3
Other receivables	3.1	1.9
Contract assets	10.9	14.4
Prepayments	15.0	11.5
	1,159.4	985.4

Amounts owed by group undertakings include £28.7m (2018: £679.0m) of which £nil (2018: £537.7m) 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, are repayable on demand and bear no interest.

17 TRADE AND OTHER PAYABLES

	2019 £m	2018 £m
Trade creditors	18.7	32.7
Amounts owed to group undertakings	94.1	350.3
Accruals	36.9	27.6
Deferred income	179.3	182.0
Other taxation and social security	6.1	14.3
Other creditors	11.3	14.1
Obligations under finance leases and hire purchase contracts	48.7	47.4
	395.1	668.4

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

18 SHARE CAPITAL

	2019 £m	2018 £m
Allotted, called up and fully paid		
100,000 (2018: 100,000) ordinary shares of £1 each	0.1	0.1

As at 31 January 2019, the Company had distributable reserves of £1,070.5m (2018: £1,228.3m).

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 2017	7.4	-	7.9	15.3
Utilised during the year	(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
Provision utilised	(0.2)	(7.9)	(0.5)	(8.6)
Released unutilised during the year	-	(0.9)	-	(0.9)
Charge for the year	0.5	0.1	-	0.6
At 31 January 2019	4.6	-	-	4.6
Current	1.4	-	-	1.4
Non-current	3.2	-	-	3.2
At 31 January 2019	4.6	-	-	4.6
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

The vacant 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 9 years. The provision has been calculated on a pre-tax discounted basis.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

20 GUARANTEES AND COMMITMENTS

Operating leases

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

	Land and buildings	
	2019 £m	2018 £m
Within one year	1.1	1.7
In two to five years	2.2	2.5
After five years	18.3	18.7
	21.6	22.9
Income from operating sub leases	-	-
Amounts included in onerous lease provisions	(1.1)	(1.1)
	20.5	21.8

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:

	2019		2018	
	Present value of payments £m	Minimum payments £m	Present value of payments £m	Minimum payments £m
Within one year	48.7	51.1	47.4	50.5
Between one and five years	11.9	12.7	15.9	17.4
Total minimum lease payments	60.6	63.8	63.3	67.9
Less amounts representing finance charge	-	(3.2)	-	(4.6)
Present value of minimum lease payments	60.6	60.6	63.3	63.3

At the year end, the Company had capital commitments of £2.0m (2018: £4.8m).

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 2019, the principal outstanding on the AA Intermediate Co Limited group debt was £2,769.8m (2018: £2,769.8m).

The covenants governing the bank loans and bond debt of the AA Intermediate Co Limited group place restrictions on the group's ability to distribute cash from the key trading companies to pay external dividends and finance activities unconstrained by the restrictions embedded in the debts.

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 scheme 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 2019 by independent qualified actuaries.

The amounts recognised in the balance sheet are as follows:

	As at 31 January 2019		
	AAUK £m	AAPMP £m	Total £m
Present value of the defined benefit obligation in respect of pension plans	(2,409.1)	(44.3)	(2,453.4)
Fair value of plan assets	2,241.8	-	2,241.8
Deficit	(167.3)	(44.3)	(211.6)

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21 PENSION COSTS AND OTHER POST RETIREMENT BENEFITS (continued)

	As at 31 January 2018		Total £m
	AAUK £m	AAPMP £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)

The decrease in the deficit is primarily due to changes in the financial assumptions over the period (in particular an increase in the discount rates) and demographic assumptions (reflecting the latest outlook for mortality rates), and Company contributions paid into the schemes. This was partially offset by the performance of plan assets being below expectations and recognition of the one-off past service cost discussed below.

During the year the Company recognised a one-off cost of £22m as a result of Guaranteed Minimum Pension (GMP) equalisation. This is a past service cost that pension schemes that had “contracted out” of the State Earnings Related Pension Scheme must now recognise following the Lloyds Banking Group judgement in October 2018. This judgement requires the equalisation of male and female members’ benefits for the effect of unequal GMPs.

In November 2013, the 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.

The last triennial valuation for the AAUK scheme was as at 31 March 2016 and was completed in June 2017, where the Group agreed a funding deficit of £366m with the pension trustees. The 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.

Using an inflation assumption of 3.2% and a discount rate assumption of 2.5%, the present value of the future deficit reduction contributions has been calculated. Based on these assumptions, the 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 recognised a charge in the income statement of £6m in respect of defined contribution pension scheme costs in the year (2018: £3m).

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 31 January 2018	2,301.5	(2,535.4)	-	-
Current service cost	-	(25.4)	(25.4)	-
Past service cost	-	(21.6)	(21.6)	-
Interest on defined benefit scheme assets/(liabilities)	58.1	(63.6)	(5.5)	-
Amounts recognised in the income statement	58.1	(110.6)	(52.5)	-
Effect of changes in financial assumptions	-	100.1	-	100.1
Effect of changes in demographic expectations	-	14.5	-	14.5
Effect of experience adjustment	-	(15.0)	-	(15.0)
Return on plan assets excluding interest income	(68.2)	-	-	(68.2)
Amounts recognised in the statement of comprehensive income	(68.2)	99.6	-	31.4
Contribution from scheme participants	1.1	(1.1)	-	-
Benefits paid from scheme assets	(93.0)	94.1	-	-
Ongoing employer contributions	21.0	-	-	-
Deficit reduction employer contributions	21.3	-	-	-
Movements through cash	(49.6)	93.0	-	-
Balance at 31 January 2019	2,241.8	(2,453.4)	-	-

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 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)	-	-

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)

	2019		2018	
	Assets with a quoted market price £m	Assets without a quoted market price £m	Assets with a quoted market price £m	Assets without a quoted market price £m
Equities	155.6	324.2	174.2	352.4
Bonds/swaps	513.8	205.1	812.5	210.6
Property	87.0	189.3	88.4	182.5
Hedge funds	20.6	394.2	22.7	439.6
Private Equity	16.6	14.2		
Cash/net current assets	14.9	2.2	16.6	2.0
Annuity	-	304.1	-	-
Total plan assets	808.5	1,433.3	1,114.4	1,187.1
Actual return on AAUK plan assets	(10.1)		132.2	

Investment strategy

The AAUK scheme trustee determines its investment strategy after taking advice from a professional investment adviser. The AAUK scheme's investment strategy has been set following an asset/liability review which considered a wide range of investment opportunities available to the scheme and how they might perform in combination. Other factors were also taken into account such as the strength of the employer covenant, the long-term nature of the liabilities and the funding plan agreed with the employer.

The trustee aims to achieve the scheme's investment objectives through investing in a diversified portfolio of growth assets which, over the long term, are expected to grow in value by more than low risk assets like cash and gilts. This is done within a broad liability driven investing framework that also uses such cash, gilts and other hedging instruments like swaps in a capital efficient way. In combination this efficiently captures the trustee risk tolerances and return objectives relative to the scheme's liabilities. A number of investment managers are appointed to promote diversification by assets, organisation and investment style.

To diversify sources of return and risk, the AAUK scheme invests in many asset classes and strategies, including equities, bonds and property funds which primarily rely on the upward direction of the underlying markets for returns, and also hedge funds which also invest in asset classes like equities, bonds and currencies, but in such a way that relies more on the skill of the investment manager to add returns while hedging against downward market moves.

The trustee's investment advisers carry out detailed ongoing due diligence on funds in all asset classes from both operational and investment capability standpoints, and any funds which are not expected to achieve their investment performance targets are replaced where possible.

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	
	2019 %	2018 %	2019 %	2018 %
Pensioner discount rate	2.5	2.5	2.5	2.5
Non-pensioner discount rate	2.7	2.6	2.5	2.5
Pensioner RPI	3.2	3.3	3.2	3.3
Non-pensioner RPI	3.1	3.3	3.2	3.3
Pensioner CPI	2.1	2.2	2.1	2.2
Non-pensioner CPI	2.0	2.2	2.1	2.2
Rate of increase of pensions in payment (final salary sections) - pensioner	3.1	3.1	-	-
Rate of increase of pensions in payment (final salary sections) - non pensioner	3.0	3.1	-	-
Rate of increase of pensions in payment (CARE section) - pensioner	1.7	1.7	-	-
Rate of increase of pensions in payment (CARE section) - non pensioner	1.6	1.7	-	-
Pensioner increase for deferred benefits	2.0	2.2	-	-
Medical premium inflation rate	-	-	7.2	7.5

Mortality assumptions are set using standard tables based on scheme-specific experience where available and an allowance for future improvements. For 2019, the assumptions used were in line with the SAPS (S2) series mortality tables (2018 – SAPS (S2) series) with future improvements in line with the CMI_2017 model with a 1.25% long-term rate of improvement (2018 – CMI_2016 model with a 1.25% long-term rate of improvement).

The 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 (2018: 27 years) and an active female retiring in normal health currently aged 60 will live on average for a further 29 years (2018: 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 2019	
	AAUK £m	AAPMP £m
Increase of 0.25% in discount rate	117.4	2.0
Increase of 0.25% in Inflation rate	(93.9)	-
Increase of 1% in medical claims inflation	-	(7.2)
Increase of one year of life expectancy	(87.3)	-

An equivalent decrease in the assumptions at 31 January 2019 would have had the equal but opposite effect on the amounts shown above, on the basis that all other variables remain broadly constant.

The weighted average duration of plan liabilities at 31 January 2019 is around 20 years.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21 PENSION COSTS AND OTHER POST RETIREMENT BENEFITS (continued)

Pension scheme risks

The AAUK schemes have exposure to a number of risks because of the investments they make in following their investment strategy. Investment objectives and risk limits are implemented through the investment management agreements in place with the schemes' investment managers and monitored by the trustees through regular reviews of the investment portfolios. In addition, under guidance from their investment advisers, the trustees monitor estimates of key risks on an ongoing basis such as those shown below. A number of measures are taken to mitigate these risks where possible.

Credit risk - This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. This risk mainly relates to the schemes' bonds and is mitigated by carrying out due diligence and investing only in bond funds which are well diversified in terms of credit instrument, region, credit rating and issuer of the underlying bond assets. To reduce risk further, the underlying bond assets within a fund are ring-fenced, and the scheme diversifies across a number of bond funds.

Currency risk - The scheme is subject to currency risk because some of the scheme's investments are in overseas markets. The trustee hedges some of this currency risk by investing in investment funds which hold currency derivatives to protect against adverse fluctuations in the relative value of its portfolio positions as a result of changes in currency exchange rates.

Market price risk - This is the risk that the fair value or future cash flows of a financial asset such as equities will fluctuate because of changes in market prices (other than those arising from interest rate, inflation or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The scheme manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets and investment managers.

Financial derivatives risk – The scheme does not directly hold any financial derivatives but instead invests in investment funds which hold the derivatives required to hedge the scheme's interest rate, inflation and currency risks. The scheme also permits some of the investment managers to use derivative instruments if these are being used to contribute to a reduction of risks or facilitate efficient portfolio management of their funds. The main risks associated with financial derivatives include: losses may exceed the initial margin; counterparty risk where the other party defaults on the contract; and liquidity risk where it may be difficult to close out a contract prior to expiry. These risks are managed by monitoring of investment managers to ensure that they use reasonable levels of market exposure relative to initial margin and positions are fully collateralised on a daily basis with secure cash or gilts collateral.

The AAUK scheme aims to hedge around 70% of both the interest rate risk and inflation risk (of the liabilities on the scheme-specific funding measure) as part of a policy to reduce financial risks. As at 31 January 2019, the scheme has hedged around 75% of interest rate risk and around 70% of inflation risk (of the liabilities on the scheme-specific funding measure). Hedging levels fluctuate over time and are monitored closely by the scheme trustees and any changes required would be made as, and when, prevailing pricing is regarded as reasonable value in the circumstances, or if any other reasons drive a policy change on risk appetite.

Bulk annuity policy purchase

During the year, the trustee of the AAUK scheme purchased a bulk annuity policy from Canada Life which insures all the benefits payable under the scheme in respect of 2,510 pensioner and dependent members. The trustee has invested in such a policy as the AAUK scheme will see all financial and demographic risks exactly matched for the covered members.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21 PENSION COSTS AND OTHER POST RETIREMENT BENEFITS (continued)

The annuity policy has been purchased in the name of the trustee and therefore remains an asset of the AAUK scheme. Under IAS 19, this policy is considered to be a qualifying insurance policy which exactly matches the amount and timing of certain benefits payable under the scheme. The fair value of the insurance policy is therefore deemed to be the present value of the related defined benefit obligations.

At 23 August 2018, the date of the risk transfer to Canada Life, the defined benefit obligation for the covered population was c. £47m less than the premium of c. £351m paid for the policy. This difference between premium paid and fair value of the insurance policy has been recognised in the Company's statement of financial position as at 31 January 2019 through other comprehensive income as an asset loss. It should be noted that this is separate to the measure of the funding deficit (used to set cash contributions to the AAUK scheme) which we expect will be reduced as a result of this policy given the prudent nature of the funding measure.

There will be a final adjustment premium paid once a data cleanse has taken place to take account of differences between the data used for quotation purposes and the finalised data, which will be concluded within 24 months of the risk transfer date. Any further premiums, or refunds where relevant, will be recognised through other comprehensive income.

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 £76.7m (2018: £75.9m) 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 the 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 £18.0m (2018: £18.2m). Monthly repayments of the partnership contribution are made by the Scottish Limited Partnership which amounted to £16.4m (2018: £16.1m) in the year. The balance of the partnership contribution as at 31 January 2019 was £1.6m (2018: £380.2m) 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 £10.7m in the year (2018: £10.5m). 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 under this arrangement was £13.6m (2018: £13.2m). The balance of the pension contribution as at 31 January 2019 was a creditor of £2.9m (2018: debtor £187.5m) 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 £30.0m (2018: £111.4m) bringing the total amount receivable to £28.7m (2018: £679.0m).

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 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:

	2019 £m
Share capital	0.1
Reserves	1,202.1
Total capital	1,202.2

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; and
- 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 Financial assets and financial liabilities

The carrying amount of all financial assets and financial liabilities by class are as follows:

Financial assets

	2019 £m	2018 £m
Loans and receivables		
Cash and cash equivalents	8.6	31.2
Trade receivables	47.4	40.3
Other receivables and contract assets	14.0	16.3
Amounts owed by group undertakings	1,083.0	917.3
Amounts owed by group undertakings (more than 1 year)	-	537.7
Total financial assets	1,153.0	1,542.8

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

24 Financial assets and financial liabilities *(continued)*

Financial liabilities	2019 £m	2018 £m
Loans and borrowings		
Trade payables	18.7	32.7
Other payables and accruals	54.3	56.0
Deferred consideration	179.3	182.0
Obligations under finance lease agreements	60.6	63.3
Amounts owed to group undertakings	94.1	350.3
Total financial liabilities	395.1	668.4

Fair values

Financial instruments held at fair value are valued using quoted market prices or other valuation techniques.

Valuation techniques include net present value and discounted cash flow models, and comparison to similar instruments for which market observable prices exist. Assumptions and market observable inputs used in valuation techniques include interest rates.

The objective of using valuation techniques is to arrive at a fair value that reflects the price of the financial instrument at each year end at which the asset or liability would have been exchanged by market participants acting at arm's length.

Observable inputs are those that have been seen either from counterparties or from market pricing sources and are publicly available. The use of these depends upon the liquidity of the relevant market. When measuring the fair value of an asset or a liability, the Group uses observable inputs as much as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation as follows:

Level 1 - Quoted market prices in an actively traded market for identical assets or liabilities. These are the most reliable.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities. These include valuation models used to calculate the present value of expected future cash flows and may be employed either when no active market exists or when there are quoted prices available for similar instruments in active markets. The models incorporate various inputs including interest rate curves and forward rate curves of the underlying instrument.

Level 3 - Inputs for assets or liabilities that are not based on observable market data.

If the inputs used to measure the fair values of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level as the lowest input that is significant to the entire measurements.

No items are held at fair value during the two years to 31 January 2019. There have been no transfers between the levels and no non-recurring fair value measurements of assets and liabilities during the two years to 31 January 2019.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

25 SHARE BASED PAYMENTS

	2019 £m	2018 £m
Share-based payments – MVP shares	0.5	3.9
Share-based payments - LTBP	-	1.0
Share-based payments – Performance Share Plan	0.6	-
Share-based payments - Retention	0.7	0.1
Share-based payments - Employee Staff Incentive Plan	2.8	1.9
Total share-based payments expense net of exceptional item	4.6	6.9
Share-based payments – MVP shares – exceptional item	-	(7.1)
Total share-based payments expense/(credit)	4.6	(0.2)

Management value participation shares (MVP shares)

On 23 June 2014, the Company issued 24 million convertible, redeemable MVP shares to certain key members of senior management at £0.001 per share. These shares were divided into three classes and are convertible into ordinary shares following satisfaction of a Total Shareholder Return (TSR) performance condition of 12% (or above) per annum compound growth against the admission price of £2.50 which is tested on the third, fourth and fifth anniversaries of admission to the London Stock Exchange. A further 36 million MVP shares were issued at £0.001 per share on 22 December 2015.

14.2% of the issued MVP shares were held in the Employee Benefit Trust (EBT) and on 22 April 2016 awards were granted by the EBT to further key members of senior management over ordinary shares which convert from the remaining 14.2% (amounting to 8,520,000) MVP shares.

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

		2019 No. of shares	2018 No. of shares	2019 Fair value per share £	2018 Fair value per share £
June 2014 awards:					
A1 shares	23 June 2017	8,000,000	8,000,000	0.25	0.25
B1 shares	23 June 2018	8,000,000	8,000,000	0.26	0.26
C1 shares	23 June 2019	8,000,000	8,000,000	0.26	0.26
December 2015 awards:					
A2 shares	23 June 2017	9,160,000	9,160,000	0.38	0.38
B2 shares	23 June 2018	9,160,000	9,160,000	0.40	0.40
C2 shares	23 June 2019	9,160,000	9,160,000	0.40	0.40
April 2016 awards:					
A2 shares	23 June 2017	2,840,000	2,840,000	0.35	0.35
B2 shares	23 June 2018	2,840,000	2,840,000	0.35	0.35
C2 shares	23 June 2019	2,840,000	2,840,000	0.35	0.35
Total		60,000,000	60,000,000		

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

25 SHARE BASED PAYMENTS (continued)

Having previously failed to vest, the A and B shares may still vest and be converted on the fifth anniversary of admission. The C shares will be tested for the first time on the fifth anniversary of admission.

All MVP shares were valued using a binomial model and 25% volatility assumption to calculate the fair value using risk-free interest rates in a range of 0.38% - 1.82%. The expected volatility reflects the assumption that the historical volatility is indicative of future trends which may not necessarily be the actual outcome.

On 1 August 2017, the former Executive Chairman, who held 55% of the MVP shares, was dismissed for gross misconduct. Under the rules of the scheme he was deemed to be a bad leaver and therefore the Company had the right to request transfer of (and failing compliance, transfer itself) all those MVP shares for a total consideration of 1 penny. The Company issued the transfer notice on 9 March 2018 and transferred the shares on 16 April 2018 to its EBT. As per IFRS 2, the share-based payment charge in relation to his shares, was reversed in the prior year resulting in a credit to exceptional operating items in the income statement of £7m and a corresponding debit to equity.

On 29 November 2018, the Group CFO transferred his entire holding of MVP shares back to the Company and so the corresponding share-based payment vesting charge has been accelerated in the year. These shares are now held in the EBT as at 31 January 2019.

Long Term Bonus Plan (LTBP)

As at 31 January 2019, the Company had issued 4 million conditional awards over market purchased ordinary shares held in the EBT to certain key members of senior management at nil cost. These shares were divided into three tranches, A, B and C and vest following satisfaction of a TSR performance condition of 12% per annum compound growth against the admission price which is tested on the third, and subject to earlier vesting, fourth and fifth anniversaries of admission to the London Stock Exchange and satisfaction of certain individual performance targets.

If the awards over A and B shares do not vest on the third anniversary of admission, then they are retested on the fourth and, if still not vested, the fifth anniversary. If the awards over B shares do not vest on the fourth anniversary of admission, then they are retested on the fifth anniversary. The awards over C shares are tested for the first time on the fifth anniversary.

The fair values of awards were calculated using a Monte Carlo simulation model. The expected volatility range of 20% - 32% reflects the assumption that the historical volatility is indicative of future trends which may not necessarily be the actual outcome.

The LTBP share-based payments are equity-settled. The following table illustrates the number and weighted fair values of the LTBP shares:

		2019	2018	2019	2018
	Vesting Date	No. of shares	No. of shares	Weighted fair value per share £	Weighted fair value per share £
A shares	26 June 2017	766,728	873,423	2.49	2.49
B shares	26 June 2018	750,084	859,069	1.98	1.98
C shares	26 June 2019	707,729	842,036	1.54	1.54
Total		2,224,541	2,574,528		

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

25 SHARE BASED PAYMENTS (continued)

The number of ordinary shares over which awards are held has reduced by 349,987 due to leavers during the financial year (2018: reduced by 410,768 ordinary shares due to leavers). The difference between the 4 million issued awards and the current number of outstanding awards is due to leavers.

Retention Award

On 19 December 2017, the Company issued 2 million conditional awards over market purchased ordinary shares to certain key members of senior management who were already in the LTBP scheme, at nil cost.

These shares were divided into two tranches, 1 and 2, and vest following satisfaction of a TSR performance condition of 12% per annum compound growth against the re-based issue price which is tested on the fourth and fifth anniversaries of admission to the London Stock Exchange and satisfaction of certain individual performance targets.

The Retention Award will lapse or partially lapse if the original LTBP awards vest in full or in part.

The fair values of awards were calculated using a Monte Carlo simulation model. The expected volatility range of 32% - 36% reflects the assumption that the historical volatility is indicative of future trends which may not necessarily be the actual outcome.

The following table illustrates the number and fair values of the Retention Award shares:

				2019	2018
		2019	2018	fair value	fair value
		No. of	No. of	per share	per share
Vesting Date		shares	shares	£	£
Tranche 1	6 November 2018	703,416	914,230	0.87	0.87
Tranche 2	6 November 2019	703,416	914,230	0.57	0.57
Total		1,406,832	1,828,460		

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

25 SHARE BASED PAYMENTS (continued)

Employee Share Incentive Plans

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

The following table illustrates the weighted fair value at award date and vesting period for each of the ESIPs awarded:

Share type	Award date	Vesting date	No. of shares 2019 ¹	Weighted fair value per share £
2015 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
2018 ESIP				
Matching shares	See below	See below	2,760,185	1.00
Total			10,119,465	

¹The number of shares shown above is the estimated number.

The 2015 ESIP Partnership shares were valued using a Black-Scholes model. The expected volatility reflected the assumption that the historical volatility was indicative of future trends which may not necessarily have been the actual outcome.

For the 2016 ESIP onwards, ESIP shares were issued on the 11th day of each month with a vesting period of 36 months from the date they were issued.

Performance Share Plan (PSP)

During the 2018 financial year, awards were granted under the PSP scheme to the CEO and other members of Senior Management (the 2017 PSP scheme). As at 31 January 2018, no performance criteria had been set for these share awards and therefore, as there was no shared understanding of the terms of the scheme, no IFRS 2 charge was accounted for in the financial statements for the 2018 financial year.

During the 2019 financial year, performance conditions were communicated to participants in the 2017 PSP scheme. As a result the grant date for this scheme occurred during the year, whereby there was a shared understanding of the terms of the scheme, and so a catch-up IFRS 2 charge was processed to bring the cumulative charge up to date as at 31 January 2019.

In addition to this, further awards were granted under the PSP scheme to members of senior management during the 2019 financial year.

A proportion of the PSP awards are subject to a comparative TSR performance condition. This includes 100% of the 2017 Award (due to the presence of a TSR underpin) and 50% of the 2018 award.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

25 SHARE BASED PAYMENTS (continued)

The fair values of awards were calculated using a Monte Carlo simulation model to take into account the expectation at the grant date that the performance conditions will be met. The expected volatility has been calculated using historical daily data commensurate with the expected term of each award as at each grant date.

The following table illustrates the fair value and vesting period of the PSP schemes:

					2019	2018
	Award Date	Vesting Date	2019 No. of shares	2018 No. of shares	Weighted fair value per share £	Weighted fair value per share £
2017 CEO Award	27 October 2017	27 October 2020	1,148,606	-	0.97	-
2017 Award	11 December 2017	27 October 2020	4,019,107	-	0.75	-
2018 CEO/CFO	7 November 2018	22 November 2021	1,950,412	-	0.86	-
2018 Award	7 November 2018	22 May 2021	5,946,613	-	0.86	-
Total			13,064,738	-		

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

26 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 £nil (2018: £0.5m), 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 £95.8m (2018: £110.4m).

A share-based payments cost of £4.6m (2018: gain of £0.2m) was incurred by the Company (see note 25) 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 (2018: £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 £59.2m including £5.4m of exceptional costs (2018: £43.8m including £3.7m 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	2019 £m	2018 £m
AA Corporation Limited	Parent	572.5	387.2
AA Senior Co Limited	Indirect parent	347.7	306.7
AA Intermediate Co Limited	Indirect parent	-	(13.7)
AA Mid Co Limited	Indirect parent	20.2	20.2
AA plc	Indirect parent	8.0	8.2
AA Acquisition co Limited	Indirect parent	-	(0.1)
AA Bond Co Limited	Fellow subsidiary	105.7	53.7
Automobile Association Insurance Services Limited	Fellow subsidiary	-	(2.5)
AA Technical Solutions Limited	Fellow Subsidiary	0.2	0.1
AA Underwriting Insurance Company Limited	Fellow Subsidiary	(17.2)	(11.8)
AA Pension Funding LP	Subsidiary	28.7	679.0
AA Brand Management Limited	Subsidiary	(76.9)	(322.3)
		988.9	1,104.7

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

26 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	2019 £m	2018 £m
A.R.C. Europe SA	Registration fees paid	-	3.6

Transactions with joint ventures:

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

Associate	Nature of transaction	2019 £m	2018 £m
Intelematics	Supply of goods	5.2	2.6

27 GROUP UNDERTAKINGS

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

Name

AA Pension Funding LP ^{1,3,4}
 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 ^{1,2,5}
 AA Underwriting Limited ²
 Automobile Association Services Limited ^{1,2,6}
 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.

⁴ AA Pension Funding LP is a limited partnership.

⁵ Automobile Association Holdings Limited has ordinary and deferred redeemable non-voting special dividend shares.

⁶ Automobile Association Services Limited is limited by guarantee.

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

28 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 and the Executive Committee as well as the former Executive Chairman until his dismissal.

The amounts recognised as an expense during the financial year in respect of key management personnel are as follows:

	2019	2018
	£m	£m
Short-term employee benefits	6.0	5.1
Share-based payments	1.8	(2.1)
Total compensation paid to key management personnel	7.8	3.0

29 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

30 ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS

New accounting standards, amendments and interpretations adopted in the year

IFRS 9 Financial Instruments

On 1 February 2018, the company adopted IFRS 9 'Financial Instruments', which replaced IAS 39 'Financial Instruments: Recognition and Measurement'. The company has not restated comparative information for prior periods.

Classification and measurement of financial assets and liabilities

On 1 February 2018, there were no changes to the carrying values of the Company's financial assets from adopting the new classification model.

There have been no changes to the classification of the Company's financial liabilities.

The following table demonstrates the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities as at 1 February 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 £m	New carrying amount under IFRS 9 £m
Financial assets				
Trade and other receivables	Loans and receivables	Amortised cost	985.4	985.4
Cash and cash equivalents	Loans and receivables	Amortised cost	31.2	31.2
Total financial assets			1,016.6	1,016.6
Financial liabilities				
Trade and other payables	Amortised cost	Amortised cost	(668.4)	(668.4)
Total financial liabilities			(668.4)	(668.4)

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 Accounting standards, amendments and interpretations (*continued*)

Impairment of financial assets

From 1 February 2018, the company implemented an expected credit loss impairment model for financial assets. For trade receivables, our calculation methodology has been updated to consider expected losses based on their ageing profile. The adoption of the expected loss approach has not resulted in any material change in impairment provision for any financial asset.

Hedge accounting

The company applied the hedge accounting requirements of IFRS 9 prospectively. At the date of initial application all of the company's existing hedging relationships were eligible to be treated as continuing hedge relationships.

Transition

Changes in accounting policies resulting from adoption of IFRS 9 have been applied retrospectively, except as described below:

- The company has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 February 2018. Accordingly, the information presented for the prior period does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.
- The determination of the business model assessment within which a financial asset is held has been made on the basis of the facts and circumstances that existed at the date of initial application.
- If an investment in a financial asset had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.
- Changes to hedge accounting policies have been applied prospectively.
- All hedging relationships designated under IAS 39 at 31 January 2018 met the criteria for hedge accounting under IFRS 9 at 1 February 2018 and are therefore regarded as continuing hedging relationships.

IFRS 15 Revenue from Contracts with Customers

On 1 February 2018, the company adopted IFRS 15 'Revenue from Contracts with Customers'. The company has not restated comparative information for prior periods.

There have been no changes to the measurement of revenue as a result of this standard. However, additional disclosures have been required in the form of disaggregation of our different revenue streams. Please see note 2 where this disaggregation of revenue has been presented.

The company has taken advantage of the practical expedient in paragraph 63 of IFRS 15 in relation to its contracts which contain a significant financing component where customers choose to pay by instalments.

Aside from IFRS 9 and IFRS 15, the company did not identify any new accounting standards coming into effect in the current year with a material impact on the financial statements.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 Accounting standards, amendments and interpretations (*continued*)

New accounting standards, amendments and interpretations not yet adopted

A number of new standards, amendments and interpretations have been issued and will be effective for annual reports beginning after 1 February 2019 but have not been applied by the company in these financial statements. These are set out below (effective dates are EU effective dates).

- IFRS 16 Leases (effective date 1 January 2019). Significant impact on the financial statements expected, see below for details on effect of adoption.
- IFRIC 23 Uncertainty over Income Tax Treatments (effective date 1 January 2019).
- Amendments to IFRS 9: Prepayment Features with Negative Compensation (effective date 1 January 2019).
- IFRS 17 Insurance Contracts (effective date to be confirmed).
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (effective date to be confirmed).
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (effective date to be confirmed).
- Amendments to References to the Conceptual Framework in IFRS Standards (effective date to be confirmed).
- Annual Improvements to IFRS Standards 2015-2017 Cycle (effective date to be confirmed).

The company did not identify any new accounting standards coming into effect in the financial year ending 31 January 2020 with an expected material impact on the financial statements, except for IFRS 16 for which the impact is explained below.

IFRS 16 Leases

Management expects the adoption of IFRS 16 to have a significant impact on the 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.

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

- an additional finance lease liability of c.£23m
- a tangible fixed asset of £15m - £20m (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.£3m 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.