

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2020

Registered number: 01878835

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

FOR THE YEAR ENDED 31 JANUARY 2020

STRATEGIC REPORT

The directors present their report and audited financial statements of Automobile Association Developments Limited ("the Company") for the year ended 31 January 2020.

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.

The outbreak of COVID-19 has resulted in a pandemic causing significant disruption across the globe. The impact on society is reflected in business closures, restrictions on movement, home working and cancellations of sporting and other events. This is expected to lead to an economic downturn.

The recent volatility in financial markets is being monitored by management who have assessed that the Company remains in a robust position to continue to perform its primary activity. The impact of COVID-19 is continuing to evolve at a fast pace and we are responding quickly with changes to our operations and material cost reduction programmes to mitigate the significant uncertainty ahead.

ROADSIDE

Roadside includes Business-to-consumer (B2C), Business-to-business (B2B) and Roadside Other.

Roadside 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 2,700-strong patrol force.

We have 2,235 driving instructors in our franchised driving schools, the AA and BSM, providing driving lessons for approximately 80,000 learners each year.

| | 2020 | 2019 |
|--|-------|-------|
| Revenue (£m) | 610.0 | 611.0 |
| Trading EBITDA (£m) | 73.6 | 70.6 |
| Trading EBITDA margin (%) | 12.1 | 11.6 |
| Personal Members excluding free Memberships (000s) which are serviced by the Company | 3,215 | 3,206 |
| Average AA plc group income per personal Members excluding free Memberships (£) | 165 | 162 |
| Business customers (000s) | 9,049 | 9,793 |
| Average income per Business customer (£) | 22 | 21 |
| Number of breakdowns ('000s) | 3,423 | 3,730 |
| Number of driving instructors | 2,235 | 2,412 |

Revenue decreased by 0.2% to £610.0m in the year. Trading EBITDA increased by 4.2% to £73.6m, including a £3.0m benefit related to the adoption of IFRS 16 (see note 1.3(q)). Trading EBITDA margin increased from 11.6% to 12.1% reflecting the EBITDA increase.

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STRATEGIC REPORT (continued)

Business-to-consumer

In line with management expectations, the paid personal membership base returned to growth during the second half of the year resulting in a membership base that grew by 0.2% in FY20 to 3.215m (2019: 3.207m). The customer retention rate was broadly flat at 80%. Average income per paid member rose to £165, up 2% since last year. The increase, which was in line with inflation, includes the increase in the proportion of new personal members taking up monthly subscriptions and improved product mix.

Business-to-business

Average income per business customer was up 5% to £22 and business customers fell to 9.0m (2019: 9.8m), principally due to our decision not to renew our contract with Groupe PSA as well as the anticipated decline in the number of AVAs with our banking partners and the reduction in new car registrations across the automotive sector. Our focus within B2B is on forming partnerships which are aligned from both a strategic and commercial perspective.

Roadside Other

The 7.3% decrease in driving instructor franchises to 2,235 (2019: 2,412) was the result of the decision to reduce the number of unprofitable driving instructor franchises. Under new leadership, we are currently developing strategies to grow the Driving Schools business and we have invested significantly, improving our digital customer journeys for pupils, offering new more competitive franchise opportunities for instructors and layering in wider benefits such as Roadside membership through our Standby promotion.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

FOR THE YEAR ENDED 31 JANUARY 2020

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 £14.1m. Further details on this arrangement are contained in note 22.

The last completed triennial valuation at the reporting date for the AAUK scheme was as at 31 March 2016 and was completed in June 2017, where the Company 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.

An updated triennial valuation for the AAUK scheme as at 31 March 2019 was underway at the reporting date and was completed in February 2020. This resulted in a significant improvement of the actuarial pension deficit from £366m (as at 31 March 2016) to £131m (as at 31 March 2019), a material reduction of 64%. A new recovery plan has now been put in place and agreed with the trustees which assumes that the scheme deficit will be fully repaid in July 2025. As a result of these actions, the Company expects to make around £6m in annual cash savings. See note 35.

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, adjusting operating items, share-based payments, pension service charge adjustments, net finance costs and tax expense. During the year, Trading EBITDA increased to £73.6m (2019: £70.6m).

Profit before tax increased to £282.9m (2019: £12.8m) due to income from shares in group undertakings (see note 7) of £240.2m (2019: £nil).

The statement of financial position shows the Company's financial position at the year end. Overall equity increased by £192.5m to £1,394.6m (2019: £1,202.1m).

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

FOR THE YEAR ENDED 31 JANUARY 2020

STRATEGIC REPORT (continued)

DIRECTORS' DUTIES: S. 172 STATEMENT

Section 172 of the Companies Act 2006 (Section 172) requires a director of a company to act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. The Board's aim is to make sure that its decisions follow a consistent process, by considering the Company's strategic priorities while balancing the interests of various stakeholders when making decisions.

The Board has considered the need to act fairly between stakeholders and continue to maintain high standards of business conduct. Nevertheless, the Board acknowledges that stakeholder interests may conflict with each other and that not every decision can result in a positive outcome for all stakeholders.

The Company is part of the AA plc group, the ultimate parent of which is AA plc. Decisions, policies and procedures that may affect stakeholders are implemented at an AA plc group level and the Board oversees the application of these to the Company. The Board recognises that the Company's stakeholders include those that interact with the Company directly, in addition to those with indirect relationships in the context of the wider AA plc group.

Key stakeholders

The Board keeps the Company's key stakeholders under review to ensure due consideration is given to all relevant stakeholders in the context of principal decisions. During the year, the following key stakeholders were identified: employees, investors, customers, suppliers, and regulators.

Board considerations

The Board has considered how the Company currently engages with each of the key stakeholders listed above, as well as its future engagement strategy. This will ensure that due consideration is given to stakeholder views and interests, to the extent that they are relevant to any particular decision.

More information about how the Board engages with each of the stakeholders above, within the context of the wider AA plc group, can be found in AA plc's Annual Report and Accounts 2020.

Summary of business relationships

This s.172 statement also satisfies the requirement in Part 4, Schedule 7 of the Large and Medium-sized Companies Regulations 2008 for certain large companies to disclose, either in their Directors' Report or in their Strategic Report, a statement of the company's engagement with suppliers, customers and other relevant parties.

Statement of employee engagement

The Company is part of the AA plc group. Decisions, policies and procedures that affect employees are implemented at an AA plc group level and the Board oversees the application of these to the Company.

Further information about the AA plc group's employee engagement strategy can be found on pages 46 and 60 of AA plc's Annual Report and Accounts 2020.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

FOR THE YEAR ENDED 31 JANUARY 2020

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.

This year, we have undertaken a fundamental review of risk registers to remove complexity from the risk management process and have also reviewed our risk appetite statements.

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).

Horizon Risk

At the end of FY20, COVID-19 emerged as a horizon risk for the AA. Since then, the business has continued to perform in line with our expectations through February and March but as we entered April we started to see greater variance as a result of COVID-19. We have responded quickly with changes to our operations and material cost reduction programmes to mitigate the significant uncertainty ahead. We will continue to monitor the situation closely.

Regulatory and legal environment

Description

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

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

Changes in regulatory rules or guidance, legislation or taxation could impact the business model.

Mitigation

The AA has no appetite for deliberately breaching any regulatory or licensing requirements.

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

Regular dialogue is maintained with the FCA and other regulatory bodies.

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FOR THE YEAR ENDED 31 JANUARY 2020

STRATEGIC REPORT (continued)

RISK MANAGEMENT FRAMEWORK (continued)

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

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

The AA has in house Legal and Compliance teams and also takes external legal advice, where deemed necessary.

Change in the year

The insurance industry has seen significant activity from the FCA in the areas of pricing practices, vulnerable customers and affordability in consumer credit. The AA has worked collaboratively with the FCA in responding to the 'Dear CEO' letters and data requests sent out to intermediaries and insurers and has been proactive in advising the FCA of any issues identified in the course of the year, none of which has been material. It has also engaged proactively on the FCA's interim report on pricing practices published in October 2019. Given recent political events, the AA continues to monitor the potential impact of Brexit on the AA's business and operations, which has previously been assessed as being minimal.

Impact, likelihood and trend

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

Potential remedies on pricing practices are being considered by the FCA and continued increases in IPT could make insurance products, including roadside assistance, less affordable for our customers. Pricing practices remedies could also have the potential to stifle innovation and competition and impact on profitability, although this would be market wide.

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

Outstanding service

Description

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

Mitigation

Over the course of the last year, the AA has continued to invest to ensure that we have the optimal patrol and call centre headcount to meet demand and training and support to make sure we are well placed to provide a premium service to our customers throughout the year. The AA has also continued its program of foundational improvements in underlying systems and technology in order to improve stability and resilience.

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

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

FOR THE YEAR ENDED 31 JANUARY 2020

STRATEGIC REPORT (continued)

RISK MANAGEMENT FRAMEWORK (continued)

Change in the year

Our call to arrive time, repair rate, single-task-completion and under-bonnet times are improved since last year. Our continued investment has increased the flexibility of the patrol force and improved our forecasting in the areas of planning and delays, to ensure that we are better placed to respond to extreme weather events.

Impact, likelihood and trend

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

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

Roadside Market Share and margin

Description

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

Mitigation

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

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

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

Change in the year

The personal paid membership base has remained stable in the last 12 months. We have retained key B2B contracts and initiated new partnerships with Uber and Admiral.

Our Smart Breakdown product continues to be deployed through a range of channels, and the membership benefits proposition continues to be enriched.

Impact, likelihood and trend

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

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

FOR THE YEAR ENDED 31 JANUARY 2020

STRATEGIC REPORT (continued)

RISK MANAGEMENT FRAMEWORK (continued)

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. Membership has stabilised this year and we expect to return to growth in 2020.

Change management and IT transformation

Description

We must continue to transform the AA to achieve the required efficient customer-centric services and to develop the business. Although much has been achieved in the last year, there remains much to do and the required improvements to process, embedded ways of working and culture, inherently involves risks in a customer-facing service environment.

Mitigation

There is an ongoing delivery capability and technology improvement programme in place with progress tracked at regular Management Business Reviews. A rigorous approach is taken in implementing changes to achieve satisfactory control, with ongoing monitoring and reporting.

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

Change in the year

We have continued to improve our technology, data and digital capabilities to drive sustained benefits in customer and employee experience. We are executing against a disciplined programme of capex investment and will continue to review timelines and priorities as part of the execution of our declared strategy.

Impact, likelihood and trend

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

Information security/ Cyber crime/ Data breach

Description

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

Mitigation

The AA has an ongoing programme of security improvements to maintain an appropriate level of security against the increasingly sophisticated global cyber threats. Controls include information security awareness training, preventative and detective security, a specialist information security team with a much improved 24/7 security operations capability, with a focus on incident response and data breach readiness. Information security requirements are included in third-party arrangements, including B2B and supplier contracts.

The AA benchmarks its security controls against the Standard for Information Security (ISO27001) and an annual review of the effectiveness of these controls is performed by an independent third party. Our strategy is adjusted (where necessary) within the context of the annual review and within the constraints of our business.

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FOR THE YEAR ENDED 31 JANUARY 2020

STRATEGIC REPORT (continued)

RISK MANAGEMENT FRAMEWORK (continued)

Change in the year

A comprehensive information security programme has delivered significant improvements on technology, data, colleague and third-party supplier risks; a high level of focus will continue to reduce the risk, but the risk remains high. Visibility of system and user behaviour remains key to improving our ability to orient our security posture to the real-world risks and improving our visibility has been a key focus for this year.

Improving awareness and enforcement of security policy is driving cultural change, and this must be maintained.

Impact, likelihood and trend

As for any company, the impact of this risk crystallising could be substantial. Focus has shifted from defence to proactive detection and investigation of security events, minimising the time between discovery and reporting to the regulator(s) or B2B partners, minimising the risk and the opportunities for any security event to be exploited by cyber criminals.

While our ability to detect and respond to security events and data breaches continues to improve, there is a commensurate increase in cyber crime-related security events and data breaches globally, affecting multiple organisations, in multiple industry verticals. The likelihood of the AA succumbing to a significant security event or data breach must be considered to be possible, but less likely, as we continue to layer in additional security controls and supporting technology.

The AA continues to use external parties to independently verify its ability to manage and reduce this risk, adjusting our strategy to meet any change to the threat landscape.

Pensions

Description

The Company has a large defined benefit (DB) pension scheme, currently in deficit, whose assets and obligations are subject to future variation from investment returns, longevity and other similar factors.

Mitigation

The UK pension scheme is supported by a company covenant and the assets and obligations of the scheme are kept under review. The DB scheme is now closed to new entrants and future accrual.

Change in the year

In February 2020, the triennial valuation of the UK pension scheme was completed as at 31 March 2019 and a funding deficit of £131m was agreed. This has significantly reduced from the £366m deficit agreed in June 2017 and consequently, payments required under the deficit recovery additional funding plan will reduce. The new recovery plan agreed with the trustees assumes that the deficit will be fully repaid by July 2025.

In addition, in March 2020, a pension consultation process was successfully completed resulting in the closure of the CARE section of the UK pension scheme. From 1 April 2020, all future pension accrual will be on a defined contribution basis with transitional arrangements for affected employees over a 3 year period from 1 April 2020.

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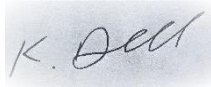
STRATEGIC REPORT (continued)

RISK MANAGEMENT FRAMEWORK (continued)

Impact, likelihood and trend

While potential continuing volatility in the markets and global economic uncertainty can still impact the deficit, the changes noted above mean that the ongoing build-up of defined benefit risk is curtailed.

ON BEHALF OF THE BOARD



K J DANGERFIELD
DIRECTOR
25 JUNE 2020

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

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

FOR THE YEAR ENDED 31 JANUARY 2020

DIRECTORS' REPORT

DIRECTORS

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

| | |
|-----------------|----------------------------|
| K J Dangerfield | (Appointed 6 January 2020) |
| S J Breakwell | |
| M A Clarke | (Resigned 29 April 2019) |
| G R Kirkwood | |
| M W Strickland | (Resigned 6 January 2020) |

Company secretary

N Hoosen

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. This is a qualifying third-party indemnity provision and was in force throughout the financial year and at the date of approval of the financial statements.

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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

FOR THE YEAR ENDED 31 JANUARY 2020

DIRECTORS' REPORT (continued)

DIRECTORS' CONFIRMATIONS

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

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

STATEMENT OF CORPORATE GOVERNANCE ARRANGEMENTS

The Company is part of the AA plc group. Corporate governance is implemented at an AA plc group level and the Board oversees the application of the AA plc group's corporate governance framework to the Company. Though the Board does not currently intend to adopt a corporate governance code in the following year, it will keep this decision under review and continue to ensure that the AA plc group's corporate governance framework remains suitable for the Company's purposes.

Further information about AA plc's corporate governance arrangements, and how these are applied within the wider AA group, can be found on pages 51 to 61 of AA plc's Annual Report and Accounts 2020.

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 2020, as detailed below.

Supporting health in the workplace

We have continued our focus on the wellbeing of our employees this year. We have an 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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

FOR THE YEAR ENDED 31 JANUARY 2020

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

Our employer-brand 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.

Our careers website 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.

This year we attracted over 34,568 job applications and welcomed 1,420 people on board. Despite this volume, more than 90% of hires come from direct sources, avoiding significant costs and maintaining a low cost per hire.

Attracting women from STEM backgrounds is particularly important to us, so we attend recruitment events aimed at this specific demographic. Meanwhile, our 'early careers' programme involves holding talks with schoolchildren about the AA that also address the 'men only' stereotype. Women now make up 40% of our new patrol apprentices.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

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DIRECTORS' REPORT (continued)

Military Covenant

As signatories of the Military Covenant, we have for many years supported both armed forces reservists and redeployment of armed services personnel into civilian roles. We continue to promote AA job opportunities through military events and both the Career Transition Partnership (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.

We thank and recognise our people throughout the year via our Extra Mile programme, while we celebrate their dedication and hard work at the annual AA Awards. In 2019, we received over 400 nominations and several thousand votes.

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.

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.

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 2020, we had 2,246 employees in the AA Auto-Enrolment Plan, the Government's minimum pension requirement for workers.

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FOR THE YEAR ENDED 31 JANUARY 2020

DIRECTORS' REPORT (continued)

Developing our people

This year, we have invested in a learning management system which combines mandatory and optional lessons and will help to instil a learning culture within the AA. This single platform offers all of our people easy access to a broad range of development options.

We now employ over 200 apprentices on courses that range from Customer Service level two to MBA level seven. This year, our apprenticeship programme was ranked in the top 20 on the RateMyApprenticeship.co.uk Top 100 Employers list, and won the West Midlands regional award.

During 2019, we continued training all of our first-line managers, with many of them working towards Institute of Leadership Management qualifications. In 2020, we will expand our leadership development across all levels.

We continue to develop essential online learning for all our employees in the following areas:

- Competition Law
- Conduct Rules
- Conflict of Interest
- Equality and Diversity
- Financial Crime & Anti-Bribery
- GDPR
- Health, Safety & Environment Awareness
- Information Security
- Treating Customers Fairly and Conduct Risk
- Vulnerable Customers
- Whistleblowing

This year, we have also developed a Career Pathways programme, designed to raise awareness of career opportunities across the business. Lateral moves across a range of diverse roles enable our people to gain experience and broaden their knowledge.

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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

FOR THE YEAR ENDED 31 JANUARY 2020

DIRECTORS' REPORT (continued)

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

GOING CONCERN

The Company's business activities and its exposure to financial risk are described in the Strategic Report on pages 1-10.

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 Company's directors have reviewed projected cash flows, which have been updated for the potential impact of COVID-19, 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. 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.

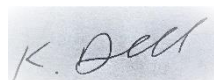
DIVIDENDS

The Company paid dividends in the year of £129.5m (2019: £129.4m) and the directors do not propose the payment of a final dividend (2019: £nil).

AUDITORS

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

BY ORDER OF THE BOARD



K J DANGERFIELD
DIRECTOR
25 JUNE 2020

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 2020 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 2020; the Income statement, the Statement of comprehensive income, the Statement of cash flows, 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

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

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

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.

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 January 2020 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 11, 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 (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
26 June 2020

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 JANUARY

| | Note | 2020 £m | 2019 £m |
|--|------|--------------|------------|
| Revenue | 2 | 610.0 | 611.0 |
| Cost of sales | | (332.0) | (346.0) |
| GROSS PROFIT | | 278.0 | 265.0 |
| Administrative and marketing expenses | | (254.9) | (271.7) |
| OPERATING PROFIT/(LOSS) | 4 | 23.1 | (6.7) |
| Income from shares in group undertakings | 7 | 240.2 | - |
| Finance income | 8 | 29.4 | 29.1 |
| Finance costs | 9 | (9.8) | (9.6) |
| PROFIT BEFORE TAX | | 282.9 | 12.8 |
| Tax (expense)/credit | 10 | (2.7) | 1.8 |
| PROFIT FOR THE FINANCIAL YEAR | | 280.2 | 14.6 |

The accompanying notes are an integral part of this income statement.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 JANUARY

| | 2020 | 2019 |
|--|----------------------------|---------------------------|
| | £m | £m |
| PROFIT FOR THE YEAR | 280.2 | 14.6 |
| OTHER COMPREHENSIVE EXPENSE ON ITEMS THAT MAY BE RECLASSIFIED TO THE INCOME STATEMENT IN SUBSEQUENT YEARS | | |
| Effective portion of changes in fair value of cash flow hedges | <u>(1.1)</u> | <u>-</u> |
| | (1.1) | - |
| OTHER COMPREHENSIVE INCOME ON ITEMS THAT WILL NOT BE RECLASSIFIED TO THE INCOME STATEMENT IN SUBSEQUENT YEARS | | |
| Remeasurement on gains on defined benefit pension schemes (see note 21) | 48.2 | 31.4 |
| Tax effect | <u>(8.2)</u> | <u>(5.3)</u> |
| | 40.0 | 26.1 |
| TOTAL OTHER COMPREHENSIVE INCOME | <u>38.9</u> | <u>26.1</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | <u><u>319.1</u></u> | <u><u>40.7</u></u> |

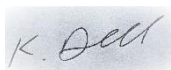
The accompanying notes are an integral part of this statement of comprehensive income.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

STATEMENT OF FINANCIAL POSITION AT 31 JANUARY

| | Note | 2020 £m | 2019 £m |
|--|------|------------|------------|
| NON-CURRENT ASSETS | | | |
| Deferred tax assets | 11 | - | 6.8 |
| Investments in subsidiaries | 12 | 502.2 | 504.7 |
| Investments in joint ventures and associates | 12 | 0.5 | 1.9 |
| Intangible assets | 13 | 35.0 | 19.9 |
| Property, plant and equipment | 14 | 34.1 | 103.0 |
| Trade and other receivables | 16 | 3.1 | - |
| Right-of-use assets | 18 | 65.1 | - |
| | | 640.0 | 636.3 |
| CURRENT ASSETS | | | |
| Inventories | 15 | 4.0 | 4.3 |
| Trade and other receivables | 16 | 1,283.5 | 1,159.4 |
| Current tax receivable | | 7.5 | 17.6 |
| Cash and cash equivalents | | 45.7 | 8.6 |
| | | 1,340.7 | 1,189.9 |
| Assets classified as held for sale | 31 | 2.5 | - |
| TOTAL ASSETS | | 1,983.2 | 1,826.2 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 17 | (360.1) | (346.4) |
| Provisions | 19 | (3.1) | (1.4) |
| Lease liabilities | 20 | (22.9) | (48.7) |
| | | (386.1) | (396.5) |
| NON-CURRENT LIABILITIES | | | |
| Lease liabilities | 20 | (43.2) | (11.9) |
| Defined benefit pension scheme liabilities | 21 | (148.0) | (211.6) |
| Deferred income | | (0.7) | (0.9) |
| Deferred tax liabilities | 11 | (3.6) | - |
| Provisions | 19 | (5.8) | (3.2) |
| Derivative financial instruments | 32 | (1.2) | - |
| | | (202.5) | (227.6) |
| TOTAL LIABILITIES | | (588.6) | (624.1) |
| NET ASSETS | | 1,394.6 | 1,202.1 |
| EQUITY | | | |
| Share capital | 34 | 0.1 | 0.1 |
| Cash flow hedge reserve | | (1.2) | (0.1) |
| Retained earnings | | 1,395.7 | 1,202.1 |
| TOTAL EQUITY | | 1,394.6 | 1,202.1 |

These financial statements were approved by the board of directors and signed on its behalf by:



K J DANGERFIELD
DIRECTOR
25 JUNE 2020

The accompanying notes are an integral part of this statement of financial position.

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 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 |
| Profit for the year | - | - | 280.2 | 280.2 |
| Other comprehensive income | - | (1.1) | 40.0 | 38.9 |
| Total comprehensive income | - | (1.1) | 320.2 | 319.1 |
| Dividends | - | - | (129.5) | (129.5) |
| Share-based payments | - | - | 2.9 | 2.9 |
| At 31 January 2020 | 0.1 | (1.2) | 1,395.7 | 1,394.6 |

The dividend paid per share is £1,295 (2019: £1,294).

The accompanying notes are an integral part of this statement of changes in equity.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 31 JANUARY

| | Note | 2020 £m | 2019 £m |
|--|----------|----------------|------------|
| Profit before tax | | 282.9 | 12.8 |
| Amortisation and depreciation | 13,14,18 | 44.0 | 40.4 |
| Net finance income | 8,9 | (19.6) | (19.5) |
| Share-based payments | 25 | 2.9 | 4.6 |
| Profit on disposal of fixed assets | | (7.0) | (1.4) |
| Income from shares in group undertakings | 7 | (240.2) | - |
| Impairment of investments in joint ventures | 12 | 1.8 | - |
| Difference between pension charge and cash contributions | | (20.4) | 3.6 |
| Working capital and provisions: | | | |
| Decrease/(increase) in trade and other receivables | | 1.5 | (8.4) |
| Decrease/(increase) in stock | | 0.3 | (0.4) |
| (Decrease)/increase in trade and other payables | | (109.1) | 98.6 |
| Increase/(decrease) in provisions | | 4.9 | (8.9) |
| Total working capital and provisions adjustments | | (102.4) | 80.9 |
| Net cash flows used in operating activities before tax | | (58.0) | 121.4 |
| Tax credit | | 9.7 | 2.0 |
| Net cash flows used in operating activities | | (48.3) | 123.4 |
| Investing activities | | | |
| Capital expenditure | | (28.5) | (19.1) |
| Income from shares in group undertakings | 7 | 240.2 | - |
| Investments in joint ventures | | (0.5) | - |
| Interest received | | 25.6 | 29.0 |
| Net cash flows from investing activities | | 236.8 | 9.9 |
| Financing activities | | | |
| Lease capital repayments net of proceeds from sale of fixed assets | | (17.8) | (22.5) |
| Payment of lease interest | | (4.1) | (4.0) |
| Dividends paid | | (129.5) | (129.4) |
| Net cash flows used in financing activities | | (151.4) | (155.9) |
| Net increase/(decrease) in cash and cash equivalents | | 37.1 | (22.6) |
| Cash and cash equivalents at 1 February | | 8.6 | 31.2 |
| Cash and cash equivalents at 31 January | | 45.7 | 8.6 |

The accompanying notes are an integral part of this statement of cashflows.

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 a private company limited by shares, incorporated and domiciled in the UK.

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 at fair value.

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.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 January 2020.

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, which have been updated for the potential impact of COVID-19, 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 year 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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1.3 Accounting policies (continued)

a) Critical accounting estimates and judgements (continued)

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. Calculating the share-based payment charge for the year involves estimating the number of awards expected to vest, which in turn involves estimating the number of expected leavers over the vesting period and the extent to which non-market-based performance conditions will be met. Determining the fair value of an award with a market-based performance condition also involves factoring in the impact of the expected volatility of the share price.

Leases

As described further in note 1.3(q), on adoption of IFRS 16 the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of 1 February 2019. Management's approach to determining the Company's incremental borrowing rate for a right-of-use asset involves using data provided by the Company's external advisors on the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the relevant right-of use asset.

Except for the incremental borrowing rate, the principal estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value amounts of assets and liabilities within the next financial period are consistent with those disclosed in the financial statements for the year ended 31 January 2019.

b) Revenue recognition

Revenue is measured at the fair value of the consideration receivable less any discounts and excluding value added tax and other sales related taxes.

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

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

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 statement of financial position date, a liability adequacy test is performed to ensure the adequacy of the insurance contract liabilities. In performing these tests, current estimates of future cash outflows arising under insurance contracts are considered and compared with the carrying amount of deferred income 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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1.3 Accounting policies (continued)

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 statement of financial position at cost less accumulated impairment losses.

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) Property, plant and equipment

Land and buildings held for use in the production of goods and the provision of services or for administrative purposes are stated in the statement of financial position at cost less any subsequent accumulated depreciation and impairment losses.

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Such costs include costs directly attributable to making the asset capable of operating as intended. The cost of property, plant and equipment less their expected residual value is depreciated by equal instalments over their useful economic lives. These lives are as follows:

| | |
|-------------------------------------|------------------------------|
| Buildings | 50 years |
| Related fittings | 3 - 20 years |
| Leasehold properties | over the period of the lease |
| Plant, vehicles and other equipment | 3 - 10 years |

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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1.3 Accounting policies (continued)

h) Leases

As explained in note 1.3(q) below, on adoption of the new leases accounting standard IFRS 16 the Company has changed its accounting policy for leases where the Company is the lessee. The new policy and the impact of the change is described in note 1.3(q).

Until 31 January 2019, leases of property, plant and equipment where the Company, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term liabilities. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life, or over the shorter of the asset's useful life and the lease term if there was no reasonable certainty that the Company would obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Company as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

i) Inventory

Inventory is valued at the lower of cost or net realisable value. Costs include all costs incurred in bringing each product to its present location and condition. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

j) Foreign currencies

These financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates.

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the respective functional currency at rates of exchange ruling at the statement of financial position date. Gains and losses arising on the translation of assets and liabilities are taken to the income statement.

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 statement of financial position date, and any adjustment to tax payable in respect of previous years.

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

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1.3 Accounting policies (continued)

k) Taxation (continued)

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

l) Provisions and contingent liabilities

A provision is required when the Company has a present legal or constructive obligation as a result of a past event and it is probable that settlement will be required of an amount that can be reliably estimated. Provisions are discounted where the impact is material. Material contingent liabilities are disclosed unless the transfer of economic benefits is remote. Contingent assets are only disclosed if an inflow of economic benefits is probable.

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

For property leases, where a decision has been made prior to the year end to permanently vacate the property, provision is made for future rent and similar costs net of any rental income expected to be received up to the estimated date of final disposal.

m) Retirement benefit obligation

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) Adjusting operating items

Adjusting 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.

q) Changes in significant accounting policies

IFRS 16 'Leases'

On 1 February 2019, the Company adopted IFRS 16 'Leases', which replaced IAS 17 'Leases'. The Company has not restated comparative information for prior periods as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 February 2019.

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 February 2019.

For leases previously classified as finance leases the Company recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. This has not resulted in any remeasurement adjustments to lease liabilities or the related right-of-use assets in respect of leases previously classified as finance leases under IAS 17.

Practical expedients applied

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 February 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1.3 Accounting policies (continued)

q) Changes in significant accounting policies IFRS 16 (continued)

The Company has also elected not to reassess whether a contract previously accounted for as a finance lease is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying IAS 17 and Interpretation 4 'Determining whether an Arrangement contains a Lease'.

Measurement of lease liabilities

| | £m |
|--|-------------|
| Operating lease commitments at 31 January 2019 (not recognised in statement of financial position) | 41.3* |
| (Less): short-term and low-value leases not recognised as a liability | - |
| | 41.3 |
| (Less): discount using the lessee's incremental borrowing rate at the date of initial application | (14.2) |
| | 27.1 |
| Discounted lease liabilities not recognised as at 31 January 2019 | 27.1 |
| Add: finance lease liabilities recognised as at 31 January 2019 | 60.6 |
| | 87.7 |
| Lease liability recognised at 1 February 2019 | 87.7 |
| Of which are: | |
| Current lease liabilities | 51.8 |
| Non-current lease liabilities | 35.9 |
| | 87.7 |

*Restated from prior year disclosure.

Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 January 2019.

Subsequently the right-of-use assets will be depreciated over their remaining lease terms.

Adjustments recognised in the statement of financial position on 1 February 2019

The change in accounting policy affected the following items in the statement of financial position on 1 February 2019:

- Property, plant and equipment – decrease of £65.4m
- Right-of-use assets – increase of £88.2m
- Lease receivables – increase of £1.4m
- Lease incentive accrual – decrease of £2.3m
- Onerous lease provision – decrease of £0.6m
- Lease liabilities – increase of £27.1m

The net impact on retained earnings on 1 February 2019 was £nil.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1.3 Accounting policies (continued)

q) Changes in significant accounting policies IFRS 16 (continued)

Impact on segment disclosures

Trading EBITDA for the 2020 financial year increased as a result of the change in accounting policy. The following segments were affected by the change in policy:

| | 2020 |
|---|-------------|
| | £m |
| Roadside | 3.0 |
| Total IFRS 16 impact on Trading EBITDA | 3.0 |

In addition to the segmental impact depreciation has increased by £2.4m and finance costs by £0.9m as a result of IFRS 16.

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 Revenue and Trading EBITDA as well as operating profit before adjusting operating items.

Adjusting operating 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:

| | 2020 £m | 2019 £m |
|------------------------------------|--------------|------------|
| Roadside: | | |
| Consumer (B2C) | | |
| Insured contracts | 327.4 | 320.0 |
| Pay for use contracts ¹ | 46.3 | 47.2 |
| Business Services (B2B) | | |
| Insured contracts | 33.1 | 36.0 |
| Pay for use contracts ¹ | 170.9 | 178.0 |
| Roadside other | 32.3 | 29.8 |
| Total Roadside | 610.0 | 611.0 |

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

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, adjusting operating items, share-based payments, pension service charge adjustments, net finance costs and tax expense.

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

Reconciliation of Trading EBITDA to operating profit/(loss)

Trading EBITDA is calculated as operating profit before adjustments as shown in the table below:

| | | for the year ended 31 January | |
|-----------------------------------|----------|-------------------------------|------------|
| | Note | 2020 £m | 2019 £m |
| Trading EBITDA | | 73.6 | 70.6 |
| Share-based payments | 25 | (2.9) | (4.6) |
| Pension service charge adjustment | | (4.6) | (5.0) |
| Amortisation and depreciation | 13,14,18 | (44.0) | (40.4) |
| Adjusting operating items | 5 | 1.0 | (27.3) |
| Operating profit/(loss) | 4 | 23.1 | (6.7) |

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 share-based payments, defined benefit pension service charge adjustments, amortisation, depreciation and unrealised gains or losses on financial instruments.

These specific adjustments are made between the GAAP measure of operating profit and the non-GAAP measure of Trading EBITDA because Trading EBITDA is a performance measure required and clearly defined under the terms of 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 PROFIT/(LOSS)

Operating profit/(loss) is stated after charging:

| | 2020 | 2019 |
|---|-------------|------|
| | £m | £m |
| Amortisation of owned intangible assets (see note 13) | 5.6 | 4.5 |
| Operating lease rentals payable: | | |
| - Land and buildings | - | 1.1 |
| Depreciation of | | |
| - Owned tangible fixed assets (see note 14) | 10.8 | 11.4 |
| - Leased tangible fixed assets (see note 14) | - | 24.5 |
| - Right-of-use assets (see note 18) | 27.6 | - |
| Brand royalty payment (see note 22) | 77.3 | 76.7 |
| Corporate recharge | 65.9 | 52.8 |

Auditors' remuneration in respect of the audit of the Company's financial statements for the year ended 31 January 2020 amounted to £283,000 (2019: £226,200). The Company's auditors provided no services to the Company other than the annual audit during either the current or prior year.

5 ADJUSTING OPERATING ITEMS

| | 2020 | 2019 | |
|---------------------------------|--------------|------|--|
| | £m | £m | |
| Pension past service cost | - | 21.6 | |
| Other adjusting operating items | (1.0) | 5.7 | |
| | (1.0) | 27.3 | |

Other adjusting operating items in the year ended 31 January 2020 comprised £4.1m recharges of group adjusting operating costs, a £6.9m gain on disposal of non-current assets and a £1.8m impairment of investments in joint ventures (see note 12).

Other adjusting operating items in the year ended 31 January 2019 comprised £5.4m recharges of group adjusting operating costs, a £1.4m gain on disposal of non-current assets, £0.6m of additional onerous property costs, £0.1m related to corporate transactions and £1.0m related to strategic review projects.

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

6 EMPLOYEE COSTS

Employee costs during the year were as follows:

| | 2020 | 2019 |
|-----------------------|--------------|-------|
| | £m | £m |
| Wages and salaries | 165.1 | 167.2 |
| Social security costs | 17.7 | 17.8 |
| Other pension costs | 22.5 | 21.7 |
| Share-based payments | 2.9 | 4.6 |
| | 208.2 | 211.3 |

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

6 EMPLOYEE COSTS (continued)

The pension past service cost of £nil (2019: £21.6m) 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:

| | 2020 | 2019 |
|-------------------------------|--------------|-------|
| Operational | 6,231 | 6,148 |
| Management and administration | 1,071 | 1,148 |
| | 7,302 | 7,296 |

7 INCOME FROM SHARES IN GROUP UNDERTAKINGS

| | 2020 | 2019 |
|--|--------------|-----------|
| | £m | £m |
| Dividends from subsidiary undertakings | 240.2 | - |
| | 240.2 | - |

8 FINANCE INCOME

| | 2020 | 2019 |
|---|-------------|-----------|
| | £m | £m |
| Bank interest receivable | 0.7 | 0.4 |
| Finance income in respect of ABF scheme (see note 22) | 10.8 | 10.7 |
| Return on investment in AA Pension Funding LP (see note 22) | 17.9 | 18.0 |
| | 29.4 | 29.1 |

9 FINANCE COSTS

| | 2020 | 2019 |
|--|-------------|-----------|
| | £m | £m |
| Finance charges payable on lease liabilities | 4.6 | 4.0 |
| Net finance expense on defined benefit pension schemes | 5.0 | 5.5 |
| Other finance charges | 0.2 | 0.1 |
| | 9.8 | 9.6 |

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

10 TAX EXPENSE/(CREDIT)

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

| | 2020 | 2019 |
|--|--------------|-------|
| | £m | £m |
| Current tax: | | |
| - UK Corporation Tax at 19.00% (2019: 19.00%) | 0.3 | 0.5 |
| - Group relief payable | - | 0.4 |
| - Adjustments in respect of prior periods | 0.2 | 0.2 |
| Total current tax charge | 0.5 | 1.1 |
| Deferred tax: | | |
| - Origination and reversal of temporary differences | 2.7 | (1.8) |
| - Adjustments in respect of prior periods | (0.2) | (1.3) |
| - Rate change adjustment on temporary differences | (0.3) | 0.2 |
| Total deferred tax charge/(credit) | 2.2 | (2.9) |
| Total tax expense/(credit) on ordinary activities | 2.7 | (1.8) |

The difference between the total current tax charge 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/(credit) to profit before tax multiplied by UK's corporation tax rate:

| | 2020 | 2019 |
|--|---------------|-------|
| | £m | £m |
| Profit before tax | 282.9 | 12.8 |
| Tax at rate of 19.00% (2019: 19.00%) | 53.8 | 2.4 |
| Effects of: | | |
| - Adjustments in respect of prior periods | - | (1.1) |
| - Expenses not deductible for tax purposes | (0.2) | 0.3 |
| - Adjustment in respect of share schemes | - | 1.0 |
| - Non-taxable dividend income | (45.6) | - |
| - Rate change adjustment on temporary differences | (0.3) | 0.2 |
| - Use of group losses | (5.0) | (4.6) |
| Tax expense/(credit) reported in the income statement | 2.7 | (1.8) |

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

11 DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax by type of temporary difference:

| | Statement of financial position | | Income statement | |
|---|--|-------|-------------------------|-------|
| | 2020 | 2019 | 2020 | 2019 |
| | £m | £m | £m | £m |
| Decelerated capital allowances | 5.1 | 5.7 | 0.6 | (1.1) |
| Other short term temporary differences | 0.6 | 0.5 | (0.1) | 0.6 |
| Pensions | (7.9) | 2.0 | 1.7 | (2.4) |
| Capital gains rolled over | (1.4) | (1.4) | - | - |
| Deferred tax (liabilities)/assets | (3.6) | 6.8 | 2.2 | (2.9) |
| | | | £m | £m |
| Deferred tax assets as at 1 February | | | 6.8 | 9.2 |
| (Charge)/credit to the income statement | | | (2.2) | 2.9 |
| Charge recognised in other comprehensive income | | | (8.2) | (5.3) |
| Deferred tax (liabilities)/assets as at 31 January | | | (3.6) | 6.8 |

The UK corporation tax rate was expected to reduce from 19% to 17% on 1 April 2020. These rates had been substantively enacted at the statement of financial position date and have therefore been included in the deferred tax calculations. The March 2020 budget announced that the reduction in tax rate would be cancelled and the 19% rate retained after 1 April 2020.

Deferred tax has been recognised at an overall rate of 17.0% at 31 January 2020 (2019: 17.0%). Recalculating the deferred tax liability on the basis that the tax rate remained at 19% would increase the liability by £0.4m.

A deferred tax asset of £0.2m (2019: £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 £m | Shares in joint ventures and associated undertakings £m |
|--|---|--|
| Cost | | |
| At 1 February 2019 | 559.1 | 4.0 |
| Additions | - | 0.4 |
| Reclassified to assets held for sale (see note 31) | (2.5) | - |
| Disposals | - | (2.1) |
| As at 31 January 2020 | 556.6 | 2.3 |
| Accumulated impairment | | |
| At 1 February 2019 | (54.4) | (2.1) |
| Disposals | - | 2.1 |
| Impairment | - | (1.8) |
| As at 31 January 2020 | (54.4) | (1.8) |
| Net book value | | |
| At 31 January 2020 | 502.2 | 0.5 |
| At 31 January 2019 | 504.7 | 1.9 |

Disposals of investments in joint ventures during the year related to Motoriety UK Limited which was dissolved on 5 June 2019.

Impairment of investments of joint ventures during the year related to Intelematics Europe Limited which was impaired by £1.8m.

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 1 February 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 |
| Additions | - | 20.7 | 20.7 |
| Disposals | - | (2.6) | (2.6) |
| At 31 January 2020 | 7.6 | 56.6 | 64.2 |
| Accumulated amortisation and impairment | | | |
| At 1 February 2018 | 7.6 | 20.9 | 28.5 |
| Amortisation | - | 4.5 | 4.5 |
| Disposals | - | (6.8) | (6.8) |
| At 31 January 2019 | 7.6 | 18.6 | 26.2 |
| Amortisation | - | 5.6 | 5.6 |
| Disposals | - | (2.6) | (2.6) |
| At 31 January 2020 | 7.6 | 21.6 | 29.2 |
| Net book value | | | |
| At 31 January 2020 | - | 35.0 | 35.0 |
| At 31 January 2019 | - | 19.9 | 19.9 |

Within software, £12.6m (2019: £7.5m) relates to assets under construction which are not amortised.

Software additions comprise £5.2m (2019: £1.8m) in relation to internally developed assets and £15.5m (2019: £5.5m) in respect of separately acquired assets.

Amortisation costs are included within administrative and marketing expenses in the income statement.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

14 PROPERTY, PLANT AND EQUIPMENT

| | Freehold land & buildings £m | Buildings on long leasehold land £m | Vehicles £m | Plant & equipment £m | Total £m |
|--|---------------------------------------|---|----------------|----------------------------|--------------|
| Cost | | | | | |
| At 1 February 2018 | 9.4 | 10.8 | 103.0 | 71.7 | 194.9 |
| Additions | - | 1.9 | 34.8 | 6.1 | 42.8 |
| Transfer | - | 1.7 | - | (1.7) | - |
| Disposals | - | - | (25.5) | (10.0) | (35.5) |
| At 31 January 2019 | 9.4 | 14.4 | 112.3 | 66.1 | 202.2 |
| Adjustment for change in accounting policy (see note 1.3(q)) | - | - | (109.5) | (8.0) | (117.5) |
| At 1 February 2019 restated | 9.4 | 14.4 | 2.8 | 58.1 | 84.7 |
| Additions | - | - | 1.1 | 7.2 | 8.3 |
| Reclassification | - | (3.6) | - | 3.6 | - |
| Disposals | - | - | (0.1) | (9.7) | (9.8) |
| At 31 January 2020 | 9.4 | 10.8 | 3.8 | 59.2 | 83.2 |
| Accumulated depreciation | | | | | |
| At 1 February 2018 | 3.8 | 8.8 | 34.8 | 40.4 | 87.8 |
| Charge for year | 0.1 | 0.3 | 26.3 | 9.2 | 35.9 |
| Disposals | - | - | (14.5) | (10.0) | (24.5) |
| At 31 January 2019 | 3.9 | 9.1 | 46.6 | 39.6 | 99.2 |
| Adjustment for change in accounting policy (see note 1.3(q)) | - | - | (44.1) | (8.0) | (52.1) |
| At 1 February 2019 restated | 3.9 | 9.1 | 2.5 | 31.6 | 47.1 |
| Charge for year | 0.2 | 0.3 | 1.4 | 8.9 | 10.8 |
| Transferred from another group company | - | - | - | 0.4 | 0.4 |
| Disposals | - | - | (0.1) | (9.1) | (9.2) |
| At 31 January 2020 | 4.1 | 9.4 | 3.8 | 31.8 | 49.1 |
| Net book value | | | | | |
| At 31 January 2020 | 5.3 | 1.4 | - | 27.4 | 34.1 |
| At 31 January 2019 | 5.5 | 5.3 | 65.8 | 26.4 | 103.0 |

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

15 INVENTORIES

| | 2020 | 2019 |
|-------------------------------------|-------------|------|
| | £m | £m |
| Finished goods and goods for resale | 4.0 | 4.3 |

16 TRADE AND OTHER RECEIVABLES

| | 2020 | 2019 |
|------------------------------------|----------------|---------|
| | £m | £m |
| Current | | |
| Trade receivables | 45.9 | 47.4 |
| Amounts owed by group undertakings | 1,208.0 | 1,083.0 |
| Other receivables | 2.3 | 3.1 |
| Contract assets | 12.5 | 15.0 |
| Prepayments | 14.3 | 10.9 |
| Lease receivables | 0.5 | - |
| | 1,283.5 | 1,159.4 |
| Non-current | | |
| Lease receivables | 3.1 | - |

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

17 TRADE AND OTHER PAYABLES

| | 2020 | 2019 |
|---------------------------------------|--------------|-------|
| | £m | £m |
| Trade payables | 23.0 | 18.7 |
| Amounts owed to group undertakings | 117.5 | 94.1 |
| Accruals | 27.4 | 36.9 |
| Deferred income | 167.7 | 179.3 |
| Other taxes and social security costs | 20.5 | 6.1 |
| Other payables | 4.0 | 11.3 |
| | 360.1 | 346.4 |

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

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

18 RIGHT-OF-USE ASSETS

This note provides information for leases where the Company is a lessee. Under IFRS 16, right-of-use assets are recognised in the statement of financial position in respect of leased assets. The Company has therefore recognised right-of-use assets in the statement of financial position from the Company's date of transition to IFRS 16, being 1 February 2019.

| | Property £m | Vehicles £m | Plant & equipment £m | Total £m |
|---|----------------|----------------|----------------------------|--------------|
| Cost or valuation | | | | |
| At 1 February 2019 | - | - | - | - |
| Adjustment for change in accounting policy (see note 1.3(q)) | 22.8 | 109.5 | 8.0 | 140.3 |
| At 1 February 2019 restated | 22.8 | 109.5 | 8.0 | 140.3 |
| Additions | - | 34.4 | - | 34.4 |
| Disposals | - | (71.3) | - | (71.3) |
| At 31 January 2020 | 22.8 | 72.6 | 8.0 | 103.4 |
| Accumulated depreciation and impairment | | | | |
| At 1 February 2019 | - | - | - | - |
| Adjustment for change in accounting policy (see note 1.3(q)) | - | 44.1 | 8.0 | 52.1 |
| At 1 February 2019 restated | - | 44.1 | 8.0 | 52.1 |
| Charge for the year | 2.4 | 25.2 | - | 27.6 |
| Disposals | - | (41.4) | - | (41.4) |
| At 31 January 2020 | 2.4 | 27.9 | 8.0 | 38.3 |
| Net book value | | | | |
| At 31 January 2020 | 20.4 | 44.7 | - | 65.1 |
| At 31 January 2019 | - | - | - | - |

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

19 PROVISIONS

| | Property leases £m | Restructuring £m | Duplicate breakdown cover £m | Other £m | Total £m |
|---------------------------|--------------------------|---------------------|---------------------------------------|-------------|-------------|
| At 1 February 2018 | 4.3 | 8.7 | 0.5 | - | 13.5 |
| Utilised during the year | (0.2) | (7.9) | (0.5) | - | (8.6) |
| Released 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 |
| Utilised during the year | (0.6) | - | - | - | (0.6) |
| Released during the year | (0.6) | - | - | - | (0.6) |
| Reclassification | - | - | - | 5.5 | 5.5 |
| At 31 January 2020 | 3.4 | - | - | 5.5 | 8.9 |
| Current | 0.7 | - | - | 2.4 | 3.1 |
| Non-current | 2.7 | - | - | 3.1 | 5.8 |
| At 31 January 2020 | 3.4 | - | - | 5.5 | 8.9 |
| Current | 1.4 | - | - | - | 1.4 |
| Non-current | 3.2 | - | - | - | 3.2 |
| At 31 January 2019 | 4.6 | - | - | - | 4.6 |

The property leases provision primarily relates to dilapidations. These sums are mainly expected to be paid out over the next 10 years; however, it will take 35 years to fully pay out all amounts provided for. The provision has been calculated on a pre-tax discounted basis.

The remaining balance of £5.5m (2019: nil) relates to a reclassification of self-funded insurance liabilities from accruals to provisions, where the Company provides for the cost of certain claims made against it, for example motor vehicle accident damage and employer liability claims.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

20 COMMITMENTS AND GUARANTEES

The Company has lease contracts for property, plant, equipment and vehicles. Future minimum lease payments under lease contracts together with the present value of the net minimum lease payments are as follows:

| | 2020 | | 2019 | |
|---|---------------------------------------|---------------------------|---------------------------------------|---------------------------|
| | Present value of payments £m | Minimum payments £m | Present value of payments £m | Minimum payments £m |
| Within one year | 22.9 | 25.5 | 48.7 | 51.1 |
| Between one and five years | 27.3 | 31.2 | 11.9 | 12.7 |
| After five years | 15.9 | 25.6 | - | - |
| Total minimum lease payments | 66.1 | 82.3 | 60.6 | 63.8 |
| Less amounts representing finance charge | - | (16.2) | - | (3.2) |
| Present value of minimum lease payments | 66.1 | 66.1 | 60.6 | 60.6 |
| Add: discounted lease liability for leases classified as operating leases in the prior year | - | - | 27.1 | 27.1 |
| Lease liability recognised at 1 February 2019 (see note 1.3 (q)) | - | - | 87.7 | 87.7 |

Where a property is no longer used by the Company for operational purposes, tenants are sought to reduce the Company's exposure to lease payments. Where the future minimum lease payments are in excess of any expected rental income due, the corresponding right-of-use asset is impaired by this excess.

Upon adoption of IFRS 16, the Company's accounting treatment of leases changed from 1 February 2019 (see note 1.3(q)).

Capital commitments

At the year end, the Company had capital commitments of £2.7m (2019: £2.0m).

Cross company guarantees

The Company, together with others in the AA Intermediate Co Limited group, is guarantor to the group's bank loans and bond debt. At 31 January 2020, the principal outstanding on the AA Intermediate Co Limited group debt was £2,767.0m (2019: £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 PENSIONS

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 will be closed from 1 April 2020 following consultation with affected employees. All future pensions build-up from 1 April 2020 in the UK will be on a defined contribution basis. See note 35 for more details. The CARE section provided for benefits to accrue on an average salary basis. 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 of 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 Company. 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 2020 by independent qualified actuaries.

The amounts recognised in the statement of financial position are as follows:

| | As at 31 January 2020 | | |
|---|-----------------------|---------------|----------------|
| | AAUK £m | AAPMP £m | Total £m |
| Present value of the defined benefit obligation in respect of pension plans | (2,576.0) | (43.8) | (2,619.8) |
| Fair value of plan assets | 2,471.8 | - | 2,471.8 |
| Deficit | (104.2) | (43.8) | (148.0) |

| | 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 PENSIONS (continued)

The decrease in the deficit is primarily due to the performance of plan assets being above expectations, experience arising from the 2019 valuation for AAUK, changes in the demographic assumptions (reflecting the latest outlook for mortality rates and inclusion of the latest experience around retirement behaviour), and Company contributions paid into the schemes. This was partially offset by the changes in financial assumptions over the period (in particular a decrease in the discount rates).

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 £14m increasing annually with inflation, until October 2038 or until the AAUK scheme funding deficit is removed if earlier, secured on the AA plc group's brands.

The last completed triennial valuation at the reporting date for the AAUK scheme was as at 31 March 2016 and was completed in June 2017, where the Company 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.

An updated triennial valuation for the AAUK scheme as at 31 March 2019 was underway at the reporting date and was completed in February 2020. The funding deficit has reduced and this has resulted in an agreement to reduce the additional deficit reduction payments. See note 35.

Using an inflation assumption of 2.8% and a discount rate assumption of 1.6%, 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.

In total, the Company is currently committed to pay £4m in ongoing employer contributions until the closure of the AAUK scheme CARE section and £24m in deficit reduction employer contributions to the AAUK scheme in the year ending 31 January 2021.

The Company recognised a charge in the income statement of £5m in respect of defined contribution pension scheme costs in the year (2019: £6m).

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21 PENSIONS (continued)

| | Assets £m | Liabilities £m | Income statement £m | Statement of comprehensive income £m |
|--|----------------|-------------------|---------------------------|---|
| Balance at 1 February 2019 | 2,241.8 | (2,453.4) | - | - |
| Current service cost | - | (23.0) | (23.0) | - |
| Past service cost | - | - | - | - |
| Interest on defined benefit scheme assets/(liabilities) | 58.6 | (63.6) | (5.0) | - |
| Amounts recognised in the income statement | 58.6 | (86.6) | (28.0) | - |
| Effect of changes in financial assumptions | - | (438.0) | - | (438.0) |
| Effect of changes in demographic expectations | - | 227.4 | - | 227.4 |
| Effect of experience adjustment | - | 51.5 | - | 51.5 |
| Return on plan assets excluding interest income | 207.3 | - | - | 207.3 |
| Amounts recognised in the statement of comprehensive income | 207.3 | (159.1) | - | 48.2 |
| Contribution from scheme participants | 1.0 | (1.0) | - | - |
| Benefits paid from scheme assets | (80.3) | 80.3 | - | - |
| Ongoing employer contributions | 18.4 | - | - | - |
| Deficit reduction employer contributions | 25.0 | - | - | - |
| Movements through cash | (35.9) | 79.3 | - | - |
| Balance at 31 January 2020 | 2,471.8 | (2,619.8) | - | - |

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21 PENSIONS (continued)

| | Assets £m | Liabilities £m | Income statement £m | Statement of comprehensive income £m |
|--|----------------|-------------------|---------------------------|---|
| Balance at 1 February 2018 | 2,301.5 | (2,535.4) | - | - |
| Current service cost | - | (25.4) | (25.4) | - |
| Past service gain | - | (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 PENSIONS (continued)

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.

The fair value of the AAUK scheme assets and the return on those assets were as follows:

| | 2020 | | 2019 | |
|--|--|--|---|---|
| | 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 | - | 243.4 | 155.6 | 324.2 |
| Bonds/swaps | 474.0 | 571.8 | 513.8 | 205.1 |
| Property | 31.8 | 255.5 | 87.0 | 189.3 |
| Hedge funds | 1.0 | 299.5 | 20.6 | 394.2 |
| Private Equity | - | 44.3 | 16.6 | 14.2 |
| Cash/net current assets | 14.6 | 8.7 | 14.9 | 2.2 |
| Annuity | - | 527.2 | - | 304.1 |
| Total plan assets | 521.4 | 1,950.4 | 808.5 | 1,433.3 |
| Actual return on AAUK plan assets | 265.9 | | (10.1) | |

Approximately £19m of unquoted assets allocated to property and £9m of unquoted assets allocated to private equity have been measured at amortised cost rather than fair value.

All assets of the AAUK scheme are held in unquoted pooled investment vehicles which invest in mixtures of quoted and unquoted funds. The above table displays the quoted and unquoted splits of the underlying investments.

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 AAUK scheme 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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21 PENSIONS (continued)

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

Pension plan assumptions

The principal actuarial assumptions were as follows:

| % | AAUK | | AAPMP | |
|--|------------|-----------|------------|-----------|
| | 2020 % | 2019 % | 2020 % | 2019 % |
| Pensioner discount rate | 1.6 | 2.5 | 1.6 | 2.5 |
| Non-pensioner discount rate | 1.8 | 2.7 | 1.6 | 2.5 |
| Pensioner RPI | 2.9 | 3.2 | 2.9 | 3.2 |
| Non-pensioner RPI | 2.8 | 3.1 | 2.9 | 3.2 |
| Pensioner CPI | 2.0 | 2.1 | 2.0 | 2.1 |
| Non-pensioner CPI | 2.0 | 2.0 | 2.0 | 2.1 |
| Rate of increase of pensions in payment (final salary sections) - pensioner | 2.8 | 3.1 | - | - |
| Rate of increase of pensions in payment (final salary sections) - non-pensioner | 2.8 | 3.0 | - | - |
| 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 | 1.7 | 1.6 | - | - |
| Pensioner increase for deferred benefits | 2.0 | 2.0 | - | - |
| Medical premium inflation rate | - | - | 6.9 | 7.2 |

Mortality assumptions are set using standard tables based on scheme-specific experience where available and an allowance for future improvements. For 2020, the assumptions used were in line with the SAPS (S3) series mortality tables with scheme-specific adjustments (2019 – SAPS (S2) series) with future improvements in line with the CMI_2018 model with a 1.25% long-term rate of improvement (2019 – CMI_2017 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 25 years (2019: 27 years) and an active female retiring in normal health currently aged 60 will live on average for a further 28 years (2019: 29 years). The reduction in life expectancies are as a result of incorporating scheme specific analysis of member mortality rates into the annual reporting valuations.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21 PENSIONS (continued)

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 2020 | |
|--|-------------------------------------|-------------|
| | AAUK £m | AAPMP £m |
| Increase of 0.25% in discount rate | 128.3 | 1.9 |
| Increase of 0.25% in RPI/CPI | (115.3) | - |
| Increase of 1% in medical claims inflation | - | (7.9) |
| Decrease of 1% in medical claims inflation | - | 6.8 |
| Increase of one year of life expectancy | (101.2) | - |

An equivalent decrease in the assumptions at 31 January 2020 would have had a broadly equal but opposite effect on the amounts shown above, on the basis that all other variables remain constant.

The weighted average duration of the defined benefit obligation at 31 January 2020 is around 20 years.

Pension scheme risks

The AAUK scheme has 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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21 PENSIONS (continued)

The AAUK scheme aims to hedge the majority 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 December 2019, the scheme had hedged around 85-90% of interest rate and 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 which insures all the benefits payable under the scheme in respect of 1,790 pensioner and dependant members. The trustee has invested in such a policy as the scheme will see all financial and demographic risks exactly matched for the covered members. This policy secures the benefits of a further proportion of scheme members following the purchase of a bulk annuity policy in August 2018 which insured all the benefits payable under the scheme in respect of 2,510 pensioner and dependant members.

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

At 9 September 2019, the date of the risk transfer to the insurer, the defined benefit obligation for the covered population was c.£25m less than the estimated premium of c.£250m paid for the policy. This difference between premium paid and fair value of the insurance policy is recognised in the statement of financial position at the 31 January 2020 year end 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 scheme) which was 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.

The two recent bulk annuity purchases have also hedged the associated longevity risks on c.20% of the scheme's IAS 19 liabilities.

While risks remain, the hedging strategy noted above, including the bulk annuity purchases, represents significant progress in controlling the Company's exposure to future increases in the deficit.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

22 ASSET BACKED FUNDING SCHEME

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

As part of this scheme, the Company sold the brand to a subsidiary undertaking, AA Brand Management Limited in exchange for an equity investment in shares of £434.4m and a loan note receivable of £565.6m. The loan was transferred to the Scottish Limited Partnership, AA Pension Funding LP Limited, (see below) on the same day in exchange for cash. The Company continues to use the brand, paying royalties for the year of £77.3m (2019: £76.7m) 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 £17.9m (2019: £18.0m). Monthly repayments of the partnership contribution are made by the Scottish Limited Partnership which amounted to £16.7m (2019: £16.4m) in the year. The balance of the partnership contribution as at 31 January 2020 was £383.0m (2019: £1.6m) 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 is included in amounts owed by group undertakings and has accrued interest of £10.8m in the year (2019: £10.7m). 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 £14.1m (2019: £13.6m). The balance of the pension contribution as at 31 January 2020 was a debtor of £181.2m (2019: creditor £2.9m) and is repayable over 25 years up to 2038.

At 31 January 2020, the Company also had an intercompany payable balance due to the Scottish Limited Partnership of £2.6m (2019: intercompany receivable of £30.0m) bringing the total amount receivable to £561.7m (2019: £28.7m).

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's treasury function. The group's 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's 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 lease liabilities 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 lease liabilities 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:

| | 2020 £m |
|----------------------|----------------|
| Share capital | 0.1 |
| Retained earnings | 1,395.7 |
| Total capital | 1,395.8 |

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

| | 2020 £m | 2019 £m |
|---|----------------|----------------|
| Financial assets at amortised cost | | |
| Cash and cash equivalents | 45.7 | 8.6 |
| Trade receivables (see note 16) | 45.9 | 47.4 |
| Other receivables and contract assets (see note 16) | 14.8 | 14.0 |
| Amounts owed by group undertakings (see note 16) | 1,208.0 | 1,083.0 |
| Total financial assets | 1,314.4 | 1,153.0 |

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

24 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Financial liabilities

| | 2020 | 2019 |
|---|--------------|--------------|
| | £m | £m |
| Financial liabilities at fair value through other comprehensive income | | |
| Derivative financial instruments (see note 32) | 1.2 | - |
| Financial liabilities at amortised cost | | |
| Trade payables (note 17) | 23.0 | 18.7 |
| Other payables and accruals (see note 17) | 51.9 | 54.3 |
| Deferred consideration (note 17) | 167.7 | 179.3 |
| Lease liabilities (see note 20) | 66.1 | 60.6 |
| Amounts owed to group undertakings (see note 17) | 117.5 | 94.0 |
| Total financial liabilities | 427.4 | 407.0 |

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 Company 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 2020. 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 2020.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

25 SHARE-BASED PAYMENTS

| | 2020 | 2019 |
|--|--------------|------------|
| | £m | £m |
| Share-based payments – MVP shares | - | 0.5 |
| Share-based payments – Performance Share Plan | 0.7 | 0.6 |
| Share-based payments – Retention Award | (0.2) | 0.7 |
| Share-based payments – Employee Share Incentive Plan | 2.4 | 2.8 |
| Total share-based payments expense | 2.9 | 4.6 |

Employee Share Incentive Plans

The AA plc group has an all-Employee Share Incentive Plan (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 AA plc will match this on a 1:1 basis (Matching shares). The ESIP share-based payments are equity-settled. ESIP Matching shares are issued on the 11th day of each month with a vesting period of 36 months from the date they were issued.

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 outstanding 2020 ¹ | Weighted fair value per share £ |
|---------------------------|------------|--------------|---|--|
| FY18 ESIP Matching shares | See above | See above | 1,263,596 | 1.50 |
| FY19 ESIP Matching shares | See above | See above | 2,308,558 | 0.86 |
| FY20 ESIP Matching shares | See above | See above | 3,767,030 | 0.55 |
| Total | | | 7,339,184 | |

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

Performance Share Plan (PSP)

During the 2018, 2019 and 2020 financial years, awards were granted under the PSP scheme to the CEO and other members of Senior Management, with vesting conditions linked to the performance of the AA plc group and its share price.

A proportion of the PSP Awards are subject to a comparative total shareholder return (TSR) performance condition. This includes 100% of the PSP 2017 Award (due to the presence of a TSR underpin), 50% of the PSP 2018 Award and 50% of the PSP 2019 Award. The fair values of awards were calculated using a Monte Carlo simulation model to take into account the expectation at the grant date that the performance conditions will be met. The expected volatility has been calculated using historical daily data commensurate with the expected term of each award as at each grant date.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

25 SHARE-BASED PAYMENTS (continued)

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

| | | | 2020 | 2019 | 2020 | 2019 |
|-----------------------|-------------------|---------------------|----------------------------------|----------------------------------|--------------------------------------|--------------------------------------|
| | Award Date | Vesting Date | No. of shares outstanding | No. of shares outstanding | Weighted fair value per share | Weighted fair value per share |
| | | | | | £ | £ |
| 2017 CEO Award | 27 October 2017 | 27 October 2020 | 1,148,606 | 1,148,606 | 0.97 | 0.97 |
| 2017 Award | 11 December 2017 | 27 October 2020 | 2,286,597 | 4,019,107 | 0.75 | 0.75 |
| 2018 CEO/CFO | 7 November 2018 | 22 November 2021 | 1,950,412 | 1,950,412 | 0.86 | 0.86 |
| 2018 Award | 7 November 2018 | 22 May 2021 | 4,387,044 | 5,946,613 | 0.86 | 0.86 |
| 2019 CEO | 30 October 2019 | 29 October 2022 | 2,200,000 | - | 0.27 | - |
| 2019 Award | 30 October 2019 | 29 October 2022 | 9,958,794 | - | 0.31 | - |
| Total | | | 21,931,453 | 13,064,738 | | |

Lapsed share schemes

The following share schemes lapsed during the year as the vesting conditions for all classes of these awards were not met following their final testing dates:

- Management Value Participation shares (MVP shares)
- Long Term Bonus Plan (LTBP)
- Retention Award

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

26 RELATED PARTY TRANSACTIONS

Transactions with other subsidiaries in the AA plc group:

The Company is the principal employer for the AA plc group. Employee 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 £98.7m (2019: £95.8m).

A share-based payments cost of £2.9m (2019: 4.6m) 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 (2019: £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 £65.9m including £4.1m of adjusting operating costs (2019: £56.6m including £5.4m of adjusting operating 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 | 2020 £m | 2019 £m |
|---|-------------------|----------------|------------|
| AA Corporation Limited | Parent | (81.8) | 575.5 |
| AA Senior Co Limited | Indirect parent | 384.1 | 347.7 |
| AA Mid Co Limited | Indirect parent | 20.2 | 20.2 |
| AA plc | Indirect parent | 8.0 | 8.0 |
| AA Bond Co Limited | Fellow subsidiary | 233.7 | 105.7 |
| AA Technical Solutions Limited | Fellow subsidiary | 0.2 | 0.2 |
| AA Underwriting Insurance Company Limited | Fellow subsidiary | (24.5) | (16.8) |
| Longacre Claims Limited | Fellow subsidiary | 0.1 | - |
| Prestige Fleet Services Limited | Fellow subsidiary | (0.1) | - |
| AA Pension Funding LP | Subsidiary | 561.7 | 28.7 |
| AA Brand Management Limited | Subsidiary | (11.1) | (76.8) |
| | | 1,090.5 | 992.4 |

Transactions with associates:

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

| Company | Nature of transaction | 2020 £m | 2019* £m |
|---------------|------------------------|------------|-------------|
| ARC Europe SA | Registration fees paid | 1.4 | 0.9 |
| ARC Europe SA | Claims | 3.2 | 2.6 |

*These numbers have been restated.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

26 RELATED PARTY TRANSACTIONS (continued)

Transactions with joint ventures:

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

| Company | Nature of transaction | 2020 £m | 2019 £m |
|-----------------------------|-----------------------|------------|------------|
| Intelematics Europe Limited | Supply of goods | 1.0 | - |

27 GROUP UNDERTAKINGS

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

| Name | Country of Incorporation / Registered Office Key | Class of shares held |
|---|--|--|
| Automobile Association Underwriting Services Limited ³ | United Kingdom / A | Ordinary |
| AA Financial Services Limited | United Kingdom / A | Ordinary |
| Personal Insurance Mortgages and Savings Limited ³ | United Kingdom / A | Ordinary |
| Automobile Association Protection and Investment Planning Limited ^{1, 3} | United Kingdom / A | Ordinary |
| A.A. Pensions Trustees Limited ³ | United Kingdom / A | Ordinary |
| Automobile Association Insurance Services Holdings Limited ³ | United Kingdom / A | Ordinary |
| A A The Driving School Agency Limited ³ | United Kingdom / A | Ordinary |
| AA Brand Management Limited ³ | United Kingdom / A | Ordinary |
| Automobile Association Holdings Limited ³ | United Kingdom / A | Ordinary and Deferred redeemable non-voting special dividend |
| Automobile Association Services Limited ³ | United Kingdom / A | Limited by guarantee |
| AA Underwriting Limited | United Kingdom / A | Ordinary |
| AA Garage Services Limited ³ | United Kingdom / A | Ordinary |
| AA Pension Funding LP ^{2,3} | United Kingdom / B | Membership Interest |
| AA Pension Funding GP Limited ³ | United Kingdom / B | Ordinary |

¹ Automobile Association Protection and Investment Planning Limited was dissolved on 3 March 2020.

² This partnership is fully consolidated into the AA plc group financial statements who have taken advantage of the exemption (as confirmed by regulation 7 of the Partnerships (Accounts) Regulations 2008) not to prepare or file separate financial statements for this entity.

³ Directly owned by Automobile Association Developments Limited; all other subsidiaries are indirectly held.

Registered Office Key

| Registered Office | Key |
|---|-----|
| Fanum House, Basing View, Basingstoke, Hampshire, RG21 4EA, England | A |
| 50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, Scotland | B |

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

27 GROUP UNDERTAKINGS (continued)

Associates

The associates of the Company which are indirectly held are listed below. Except where otherwise stated, the share capital of each associate consists of only ordinary shares.

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

Joint ventures

The joint ventures of the Company which are indirectly held are detailed below. Except where otherwise stated, the share capital of each joint venture consists of only ordinary shares.

| Company | Country of registration | Nature of business |
|--|-------------------------|--------------------|
| Intelematics Europe Limited ¹ (32% interest held) | England | Roadside services |

¹ Intelematics Europe Limited changed its name to DRVN Solutions Limited on 10 June 2020.

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 consist of the Chief Executive Officer, Chief Financial Officer and the Executive Committee. With effect from 1 February 2019 Non-Executive Directors are not included in the definition of key management personnel.

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

| | 2020 £m | 2019 £m |
|---|------------|------------|
| Short-term employee benefits | 4.1 | 4.9* |
| Share-based payments | 0.4 | 1.8 |
| Total compensation paid to key management personnel | 4.5 | 6.7 |

*This number has been restated to remove the Non-Executive Directors as per the new definition.

29 ULTIMATE PARENT UNDERTAKING AND ULTIMATE CONTROLLING PARTY

The Company is a wholly owned subsidiary of AA Corporation Limited, a company registered in the UK and a wholly owned indirect subsidiary of AA Intermediate Co Limited.

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 controlling party and parent undertaking is AA plc, which is also the parent of the largest group to consolidate these financial statements and 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

On 1 February 2019, the Company adopted IFRS 16 'Leases', which replaced IAS 17 'Leases'. See note 1.3(q) for the impact on the financial statements. The Company has not restated comparative information for prior periods.

Aside from IFRS 16, the Company did not identify any new accounting standards coming into effect in the current year with a material impact on the financial statements.

New accounting standards, amendments and interpretations not yet adopted

A number of new standards, amendments and interpretations have been issued and will be effective for annual reports beginning after 1 February 2020 but have not been applied by the Company in these financial statements. These are set out below (effective dates are EU effective dates).

- Amendments to References to the Conceptual Framework in IFRS Standards (effective 1 January 2020).
- Definition of Material (Amendments to IAS 1 and IAS 8) (effective 1 January 2020).
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) (effective 1 January 2020).
- IFRS 17 Insurance Contracts (effective date to be confirmed).
- Definition of a Business (Amendments to IFRS 3) (effective date to be confirmed).

The Company did not identify any new accounting standards coming into effect in the financial year ending 31 January 2021 with an expected material impact on the financial statements.

31 ASSETS CLASSIFIED AS HELD FOR SALE

At the year end, Automobile Association Underwriting Services Limited, a direct subsidiary undertaking of the Company, was held for sale. The value of the investment being held for sale is £2.5m.

32 DERIVATIVE FINANCIAL INSTRUMENTS

| | 2020 £m | 2019 £m |
|------------------------|------------|------------|
| Liabilities | | |
| Forward fuel contracts | (1.2) | - |
| | (1.2) | - |

The forward fuel contracts liability is shown on a net basis as the liability is settled on a net basis. On a gross basis, the asset is £nil (2019: £nil) and the liability is £1.2m (2019: £nil).

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

33 DIRECTORS' REMUNERATION

| | 2020 £m | 2019 £m |
|--|------------|------------|
| Aggregate remuneration in respect of qualifying services | 2.8 | 3.4 |
| Money purchase scheme contributions | 0.1 | 0.2 |
| | 2.9 | 3.6 |

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

| | | |
|-------------------------------------|-----|-----|
| Remuneration | 1.5 | 1.4 |
| Money purchase scheme contributions | 0.1 | 0.1 |
| | 1.6 | 1.5 |

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 (2019: nil) directors under a defined benefit scheme and 3 (2019: 4) under a money purchase scheme. There was no compensation to directors for loss of office in the year (2019: £nil).

34 SHARE CAPITAL

| | 2020 £m | 2019 £m |
|--|------------|------------|
| Allotted, called up and fully paid | | |
| 100,000 (2019: 100,000) ordinary shares of £1 each | 0.1 | 0.1 |

As at 31 January 2020, the Company had distributable reserves of £1,381.8m (2019: £1,070.5m).

In the year ended 31 January 2020, the Company paid a dividend of £129.5m (2019: £129.4m).

35 EVENTS AFTER THE REPORTING PERIOD

AAUK pension scheme

In February 2020, the actuarial triennial review for the AAUK pension scheme was completed as at 31 March 2019. This resulted in a significant reduction to the technical provisions deficit of 64% from £366m as at 31 March 2016 to £131m. Under the previous 2016 valuation, the recovery plan extended through to 2038 in respect of the Asset-Backed Funding element and the Additional Funding element, extended to 2026. A new recovery plan has now been put in place and agreed with the trustee which assumes that the scheme deficit will be fully repaid by July 2025, which is 1 year earlier than previously planned in terms of the Additional Funding element and 13 years earlier in terms of the Asset-Backed Funding element. To do this, the Company has committed to paying an additional (above the Asset-Backed Funding scheme payments) £10m per annum from April 2020 to March 2021, £11m per annum from April 2021 to March 2022 and £12m per annum from April 2022 to July 2025. From 1 February 2020, the trustee will also meet its own costs of running the scheme. As a result, annual cash costs for the Company are expected to reduce by around £6m.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

35 EVENTS AFTER THE REPORTING PERIOD (continued)

Consultation on the closure of the CARE section of the AAUK pension scheme commenced on 18 January 2020 through employee representatives and concluded on 18 March 2020. The Company had proposed that, from 1 April 2020, all future pension accrual would be on a defined contribution basis.

Following a review of the feedback received during consultation, the Company has confirmed that the proposals will be implemented on a modified basis and future pension accrual will be on a defined contribution basis for all UK employees with transitional arrangements which will cost c.£11m over three years starting from 1 April 2020.

The agreed transitional arrangements provide a valuable enhanced Company pension contribution over a three year period commencing 1 April 2020 available to all members who make a contribution of at least 4% of pensionable salary per year. Further enhancements to the Company pension contribution are also available during the transitional period to members willing to make higher contributions.

On an ongoing basis, the regular (non-transitional) pension accrual costs for the affected members are expected to be c.£4m per year lower than the current costs in the AAUK pension scheme as a result of the closure.

In addition, without scheme closure the Company would have incurred increased pension accrual cash costs in relation to the CARE section of a further c.£5m per annum from 1 April 2020 (under the triennial valuation agreement). Closure also curtails the ongoing build-up of defined benefit risk for the Company.

Following agreement of the 31 March 2019 triennial valuation in February 2020, as well as conclusion of the consultation on closure of the AAUK scheme to future accrual, the Company has a much clearer visibility over pension costs for at least the next three years (where finalisation of the 31 March 2022 triennial valuation would reasonably be expected). The ongoing volatility from accrual costs has been removed but future volatility of deficit costs does remain. The immediate impact of COVID-19 on the global financial markets means higher fluctuation of the funding level in the AAUK scheme, albeit partially mitigated by the de-risked investment strategy and high levels of hedging. Should these conditions persist at the time of the 2022 triennial valuation then there is a risk that the contributions required from the Company could increase.