

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2021

Registered number: 01878835

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

STRATEGIC REPORT

The directors present their report and audited financial statements of Automobile Association Developments Limited (“the Company”) for the year ended 31 January 2021.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

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

The principal activities of the Company are the provision of roadside assistance and the management of the AA’s driving instructor franchise operations.

The COVID-19 pandemic has caused significant disruption across the globe. The impact on society has been reflected in business closures, restrictions on movement, home working and cancellations of sporting and other events, leading to an economic downturn.

Despite the resultant volatility in financial markets, the Company remains in a robust position to continue to perform its primary activity and management have assessed that this will continue to be the case.

ROADSIDE

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

Roadside performance is driven by our personal membership base and supported by our business customer (B2B) base, underpinning the scale of our operations which is critical to our success. Each provide approximately half the jobs for the patrol force.

	2021	2020
Revenue (£m)	585.6	610.0
Trading EBITDA (£m)	69.3	73.6
Trading EBITDA margin (%)	11.8	12.1
Paid personal members excluding free memberships (000s) ¹	3,168	3,215
Average income per paid personal member excluding free memberships (£) ¹ (new basis)	163	165
Business customers (000s) ¹	8,702	9,049
Average income per Business customer (£) ¹	23	22
Number of breakdowns ('000s) ¹	3,014	3,423

¹ These are the AA Limited group KPIs used by the AADL board to monitor performance.

Roadside delivered a solid performance, responding well to the challenges of COVID-19. Overall revenue fell by 4% in the year to £585.6m, reflecting the impact of the pandemic on the driving school business.

Trading EBITDA was down 6% to £69.3m and the Trading EBITDA margin was down 0.3% to 11.8%, in line with our expectations, reflecting the operational resilience of our core Roadside business and our ability to act swiftly to protect profitability.

STRATEGIC REPORT (continued)

Business-to-consumer

In line with management expectations, the paid personal membership base fell by 1% during the year to 3,168k (2020: 3,215k) with the retention rate down 3% to 78% (2020: 80%). This was a strong performance considering the 2% decline in the paid membership base during the first half of the year due to the national lockdown in March, which limited driving on Britain's roads and led to a decline in new business volumes. Following the gradual lifting of the lockdown restrictions in June, we took swift action to support our existing members and a new above-the-line marketing campaign in July led to progressive improvement in new business volumes and retention rates. During the second half, the paid membership holdings grew by 1%. This was despite the additional continuing lockdown measures and demonstrates the resilience of our award-winning membership proposition.

During the year, we revised the basis of the average income per paid member to reflect the average income earned from the paid membership base over the last 12 months as a proportion of the average paid personal membership holdings as opposed to the closing paid membership holdings on which it was previously calculated. Under the new basis, the average income per paid member fell in the year by £2 to £163 (2020: £165), and under the old basis, the average income per paid member was flat at £164 (2020: £164). The reduction this year under the new basis was principally due to the impact of COVID-19 on new business volumes during the first half of the year, as well as the impact of lower European Breakdown Cover revenues. The average income per paid member was also impacted by the continued strong performance of our cross-sell channels, including our Insurance business, which are typically transacted at a lower average revenue.

Business-to-business

We successfully retained or extended all of our core roadside contracts this year, including VWG, Porsche, Honda, Hyundai, Jaguar Land Rover, MG, Bentley UK, DAS and LeasePlan. Total business customers fell to 8.7m (2020: 9.0m) on account of the significant reduction in new car registrations due to the impact of COVID-19, as well as the anticipated decline in the number of AVAs with our banking partners. This fall in holdings was partially offset by the growth in our insurance partnership with Admiral. Overall income for B2B grew, with the average income per business customer up 5% to £23 (2020: £22) reflecting the benefit of higher pay-for-use income from the breakdowns we serviced and the additional services that we provided during the lockdown in supporting our motor manufacturing partners and the London Ambulance Service. We also made good progress in the year with our vehicle Recall proposition with OEMs, which received a 99.7% customer satisfaction score and delivered over 10,000 repairs despite a pause for COVID-19. We also introduced a new service to deliver managed support to EV chargepost networks, providing help to end customers and the ability to remotely monitor and reset chargeposts.

In March 2021, we were pleased to announce the award of a new five-year contract with Nationwide through which we will offer Nationwide's Flexplus customers our award-winning roadside assistance services, which they will be able to access fully through our digital channels including the AA app.

The service will go live from the first quarter of 2022. The partnership builds on our success last year with Admiral. Our partnership with Admiral continues to go from strength to strength and since our launch in September 2019, we have successfully on-boarded over 0.5m customers.

Roadside Other

The performance of our Driving Schools business was significantly impacted this year by COVID-19 and our decision to waive franchise fees for instructors for 14 weeks to support them during the first lockdown. On 4 July, the Government announced that driving lessons could restart again in England which was a welcome relief for thousands of instructors and pupils. However, the introduction of tiered lockdowns across England from October and further restrictions since December have meant we have been unable to offer lessons. Therefore, the trading environment remains challenging despite the continued strong demand for driving lessons, as evidenced through pupil bookings being up year-on-year following the first lockdown and provisional licence applications remaining steady. We continue to support our instructors during these challenging times through a combination of competitive pricing, discounts and payment holidays.

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. Further details on this arrangement are contained in note 22.

In February 2020, the triennial actuarial review was completed for the AAUK pension scheme 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. The agreed recovery plan with the pension trustees aims to eliminate the technical provisions deficit by July 2025. 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 has also met its own costs of running the scheme. As a result of our actions, we expect to make around £6m in annual cash savings relative to the previous agreement.

On 18 March 2020, we concluded our 60-day pension consultation with around 2,800 members through their union/management representatives in respect of our proposal to close the CARE section of the AAUK defined benefit pension scheme. Closure of the scheme took effect from 31 March 2020 and protects against the ongoing build-up of defined benefit risk for the Company and reduces the pension cash costs by c.£4m per annum.

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 income tax expense. During the year, Trading EBITDA reduced to £69.3m (2020: £73.6m).

Profit before tax reduced to £93.0m (2020: £282.9m) due to lower income from shares in group undertakings (see note 7) of £48.6m (2020: £240.2m).

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 ensure that its decisions follow a consistent process by considering the Company's strategic priorities, while balancing the interests of various stakeholders when making decisions. This Section 172 statement sets out how the directors discharged their Section 172 responsibilities during the 2021 financial year.

The Board considers 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 Limited group, the ultimate parent of which was AA Limited during the 2021 financial year. Decisions, policies and procedures that may affect stakeholders were implemented at an AA Limited group level during the year 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 Limited 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 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 Limited group, can be found in AA Limited's Annual Report and Accounts 2021.

Summary of business relationships

This Section 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 Limited group. Decisions, policies and procedures that affect employees were implemented at the AA Limited group level during the year and the Board oversaw the application of these to the Company.

STRATEGIC REPORT (continued)

RISK MANAGEMENT FRAMEWORK

Governance

The Company operates a 'three lines of defence' model. The model distinguishes between functions that have prime responsibility for identifying, owning and managing risks (first line), oversight and control functions (second line) and functions providing independent assurance (third line). All three lines of defence have specific tasks in the internal control governance framework. To support this model, we have risk policies, risk oversight committees, and clearly documented accountabilities and responsibilities from the business, through to the Board.

Identification and assessment of risks

The AA undertakes a top down and bottom up approach in respect of the identification and assessment of risks. Principal Risks facing the Company are assessed by the AA Limited Risk Committee.

A summary of these risks is detailed below, together with the key mitigating actions/controls, a summary of changes during the year and the primary KPIs.

Our Risk Management Framework Policy requires all areas of the business to maintain a risk register which is reviewed on at least a quarterly basis. Risks from this 'bottom up' risk identification exercise are linked to the main principal risks identified by the AA Limited Board which are documented in this report.

Risks are assessed and scored for probability and impact, both inherently (i.e. without controls) and residually (i.e. with controls).

A target risk score is also set. If the residual risk score is higher than the target score, then either appropriate action is agreed to ensure that the risk exposure is returned to the desired target level, or the increased risk exposure is formally accepted.

Risk appetite

During the 2021 financial year, risk appetite was linked to Principal Risks and was documented and presented to the AA Limited Risk Committee for review and debate and presented to the AA Limited Board for approval. Management information provides regular updates to ensure that the risk exposure remains within the desired tolerance level or is brought to the attention of the relevant management for corrective actions to be taken. A formal risk acceptance process is in place to ensure that any request for material risk acceptance is documented, reviewed and agreed at an appropriate level of authority.

Incidents and near misses

An important part of the Risk Management Framework is the identification and reporting of incidents and near misses including root cause analysis. This helps to inform the assessment of risk and highlights areas for control improvement actions. The AA encourages and fosters a culture of open and honest incident and near miss reporting.

Principal Risks and uncertainties

COVID-19 has within the last year emerged as a new Principal Risk for the Company, with the impact evolving over the last twelve months. The remaining Principal Risks identified are the same as last year. All of the risks below may have an adverse impact on our brand and reputation.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

STRATEGIC REPORT (continued)

<p>Principal risk: COVID-19</p> <p>COVID-19 will materially impact our ability to provide service and/or performance</p>	<p>Description COVID-19 could cause significant disruptions to our operations, impacting our ability to maintain service to an expected level. COVID-19's short, medium and long term economic impact could affect our ability to execute our strategy, and our performance.</p>	<p>Change in the year New for FY21</p> <p>Impact, likelihood and trend The COVID-19 pandemic continues to have a material impact within the UK and internationally, both operationally for the AA, as well as at a macroeconomic level. The resilient nature of our business model has meant that we have been able to continue to serve customers and deliver expected performance. However, although the outlook is improving with the rollout of vaccinations, the long term economic impact of COVID-19 is still unknown.</p>
<p>Risk trend: New for FY21</p>	<p>Mitigation During the first half of FY21, our immediate focus was on operational risks, with several changes to working practices implemented, including homeworking to ensure the safety of our employees and customers.</p>	
<p>Principal risk: Regulatory and legal environment</p> <p>A changing regulatory environment may adversely affect our activities</p> <p>Material litigation against the AA</p>	<p>Description The changing regulatory environment could cause currently compliant services to become non-compliant, with material implications for 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.</p>	<p>Change in the year The insurance industry has seen significant activity from the FCA in the areas of pricing practices, vulnerable customers and product value considering COVID-19. The AA has worked collaboratively with the FCA in responding to the 'Dear CEO' letters and data requests sent out to intermediaries. The FCA's Pricing Practices final rules have now been published. These rules confirm the requirements to ensure renewal prices offered are no higher than the equivalent new business price as well as requiring firms to assess fair value of the products they sell. The AA welcomes the FCA's proposals and agrees with the importance of delivering good outcomes for customers.</p>
<p>Risk trend: Increasing</p>	<p>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. Our regulated Boards continue to actively review pricing practices in line with guidance from the FCA. Regular dialogue is maintained with the FCA and other regulatory bodies. The AA has in-house Legal and Compliance teams and takes external legal advice, where deemed necessary.</p>	<p>Impact, likelihood and trend As in previous years, the regulatory environment continues to be dynamic, with a continuing and demanding programme of regulatory initiatives. The FCA's recent pricing practices final rules may have a material impact on the motor and home insurance market in the UK for both insurers and insurance intermediaries, which could lead to a disrupted market. The rules come into force at the end of 2021 and we will continue to monitor change in market dynamics as a result of these new rules and the impact on the AA.</p>

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

STRATEGIC REPORT (continued)

<p>Principal risk: Outstanding service</p> <p>We are unable to maintain an outstanding service</p> <p>Risk trend: Same as last year</p>	<p>Description</p> <p>The AA's brand and its continued success, and in particular the loyalty of its customers, relies on delivering outstanding service that is superior to the rest of the market. Inadequate investment in technology, systems, people and processes would place this objective at increasing risk.</p> <p>Mitigation</p> <p>The AA continues to invest to ensure that we have the optimal patrol and call centre headcount to meet demand, together with training and support to make sure we are well placed to provide a premium service to our customers throughout the year. We carry out ongoing monitoring of complaints, press reports and social media through structured processes, including first line business assurance.</p>	<p>Change in the year</p> <p>We have continued to maintain favourable call to arrive times, partly driven by lower levels of traffic during COVID-19 lockdowns. 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 and the impacts of COVID-19.</p> <p>Impact, likelihood and trend</p> <p>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.</p>
<p>Principal risk: Roadside market share and margin</p> <p>We are unable to maintain our market share and an ability to command a price premium on our roadside services</p> <p>Risk trend: Same as last year</p>	<p>Description</p> <p>Competitors that provide roadside services at a lower price or have a different business model, together with changes in car technology, threaten our market share. If we charge a price premium that is above what our service can sustain, we will not grow our member or business-to-business (B2B) customer base and, in the long term, sustainably grow profits.</p> <p>Mitigation</p> <p>We are continuing to improve our Roadside membership proposition by strengthening our 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. We have robust pricing and product governance processes in place to ensure that our pricing models are in line with regulatory expectations and deliver value to customers.</p>	<p>Change in the year</p> <p>Personal paid membership fell slightly due to the impact of recurring COVID-19 lockdown restrictions since March 2020. We retained or extended all core B2B contracts in the year. There is still uncertainty in respect of the long-term COVID-19 impact on the business, especially should there be a prolonged period of recurring waves.</p> <p>Impact, likelihood and trend</p> <p>In the 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 and other B2B contracts, including with major car manufacturers. The business is focused on realising a sustainably growing membership and recognises the need for a more distinctive and differentiated offering to mitigate competitive pressures.</p>

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

STRATEGIC REPORT (continued)

<p>Principal risk: Change management & IT transformation</p> <p>We are unable to successfully complete essential business transformation</p> <p>Risk trend: Same as last year</p>	<p>Description</p> <p>We must continue to transform the AA to achieve the required efficient customer-centric services and to develop the business.</p> <p>Mitigation</p> <p>There is an ongoing delivery capability and technology improvement programme in place with progress tracked at regular Management Business Reviews.</p> <p>A rigorous approach is taken in implementing changes to achieve satisfactory control, with ongoing monitoring and reporting. We have a talent management model in place, where skills gaps are identified, and development and/or recruitment initiatives are actioned.</p>	<p>Change in the year</p> <p>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.</p> <p>Impact, likelihood and trend</p> <p>Change management and IT transformation is central to execution of the Company's strategy. Failure to implement within budget and/or timeframes could have a significant impact; therefore, we continue to invest in this area to ensure that delivery is met in line with plans.</p>
<p>Principal risk: Information security/Cyber crime/Data breach</p> <p>We are unable to protect ourselves from a significant data breach or cyber security incident</p> <p>Risk trend: Increasing</p>	<p>Description</p> <p>The integrity of critical information is corrupted, resulting in it not being available where and when it is needed, or the confidentiality of commercially sensitive, private or customer information is compromised by inappropriate disclosure or a serious data breach occurs.</p> <p>Mitigation</p> <p>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, and a specialist information security team with a much improved 24/7 security operations capability, with a focus on incident response and data breach readiness. 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.</p>	<p>Change in the year</p> <p>The AA's information security programme has delivered significant improvements in technology, data, colleague and third-party supplier risks, and we continue to invest in this area to further strengthen controls. We have increased our proactive detection capabilities, minimising the time between discovery and remediation to decrease the risk and the opportunities for any security event to be exploited by cyber criminals. 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.</p> <p>Impact, likelihood and trend</p> <p>Cyber crime continues to present a significant risk to the AA. 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. A high level of focus will continue in order to reduce the risk and 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.</p>

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

STRATEGIC REPORT (continued)

Principal risk: Health and safety	Description We must continue to effectively manage the risks to our workforce's and customers' safety and ensure that effective controls are deployed to achieve this. Accountability to take action is essential in this as is oversight, review and embracing continual improvement.	Change in the year The AA continues to strive to maintain a safe environment for employees and members. As part of our COVID-19 response the AA continues to follow government guidance in our operations, both internally for our staff as well as externally to our members to minimise risk to all parties. As a result of our response, we have and will continue to incur additional costs (such as PPE and additional resources within offices) to maintain safe systems of work in line with government guidance.
We are unable to maintain the safety of our workforce and customers	Mitigation We have a robust and externally audited integrated health, safety and environmental (HS&E) management system as well as local arrangements where appropriate. We regularly review all our HS&E risks and controls to ensure that they remain fit for purpose. We have a dedicated team of health and safety advisers who are all members of the Institution of Occupational Safety and Health. We deploy best practice, both that seen internally as well as externally. We are an active member of SURVIVE, the industry group working towards improving safety for those working at the roadside, and we have an external expert chair of our core Health and Safety Committee, to ensure good governance and independent scrutiny.	Impact, likelihood and trend The impact of failure to look after our employees' and customers' safety could be very high and could result in not only an increase in civil claims, but also in enforcement action against the Company and/or its Directors. AA working practices are designed to reduce the probability of accidents to a minimum, although given the environment in which we provide Roadside service, it is not possible to eliminate this risk.
Risk trend: Increasing		

Principal risk: 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.	Change in the year We continue to execute the recovery plan agreed with the trustees in February 2020 and continue to assume that the deficit will be fully repaid by July 2025. The CARE section of the AAUK scheme has now been closed, and from April 2020 pension accrual is now on a defined contribution basis with transitional arrangements for affected employees over a 3-year period from 1 April 2020.
We are unable to meet our pension liabilities	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.	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.
Risk trend: Stable		

ON BEHALF OF THE BOARD



K J DANGERFIELD
DIRECTOR
14 June 2021

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

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

DIRECTORS' REPORT

DIRECTORS

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

J Pfaudler	(Appointed 14 April 2021)
K J Dangerfield	
S J Breakwell	(Resigned 14 April 2021)
G R Kirkwood	

Company secretary

N Hoosen	(Resigned 31 May 2021)
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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 the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Under company law, 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 international accounting standards in conformity with the requirements of the Companies Act 2006 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

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 Limited group. During the 2021 financial year, corporate governance was implemented at an AA Limited group level and the Board oversaw the application of the AA Limited 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 Limited group's corporate governance framework remains suitable for the Company's purposes.

Further information about AA Limited's corporate governance arrangements, and how these are applied within the wider AA group, can be found on pages 39 to 41 of AA Limited's Annual Report and Accounts 2021.

EMPLOYEE ENGAGEMENT

We remain committed to employee engagement throughout the business. Employees are kept updated on the Company's strategy and progress through regular communications, including emails and updates on the Company's intranet page. Further details of our workforce engagement and our people can be found in AA Limited's Annual Report and Accounts 2021.

EMPLOYEES WITH DISABILITIES

The AA is proud of our policy that people with any disability should have full and fair consideration for all vacancies. During the year, we continued to demonstrate our commitment to interviewing those people with disabilities who fulfil the minimum criteria and we endeavour to retain employees in the workforce if they become disabled during employment.

DIVIDENDS

The Company paid dividends in the year of £138.9m (2020: £129.5m) and the directors do not propose the payment of a final dividend (2020: £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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

DIRECTORS' REPORT (continued)

GOING CONCERN

The Company's business activities, future developments and its exposure to risk are described in the Strategic Report on pages 1-9.

The Company has adequate financial resources due to the Company's own net current asset position. The directors have reviewed projected cash flows for a period of one year from the date of signing these financial statements and have concluded that the Company has sufficient funds to continue trading for this period and the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Further, the directors believe that the Company has adequate financial resources due to the available cash resources of the AA Limited group and more specifically, the AA Intermediate Co Limited group, which can be drawn upon.

For the AA Limited group's longer-term viability, it remains a key assumption of its directors that the AA Limited group continues to have ready access to public debt markets to enable its borrowings to be refinanced in due course. The AA Limited group directors propose a refinancing of the group's Class A5 Notes in advance of their maturity on 31 January 2022. The directors understand that the outstanding £1,997m Class A Notes are trading at a price near par with yields below 4% which indicate that the debt market considers the refinancing risk of the Class A5 Notes to be low. Given the significant deleveraging of the debt at both A Notes and B Notes level, the current pricing of A Notes in the secondary debt markets and the existing Investment Grade rating of BBB- of the A Notes to be issued, the directors are, on this basis, confident that this refinancing will be successful. At the date of approval of these financial statements, there is no other debt with a maturity date within 12 months from the issue of these financial statements.

The AA Limited group directors have considered these points along with the projected cash flows, for a period of one year from the date of approval of these financial statements and have concluded that they have confidence that the AA Limited group will have sufficient funds to continue trading for this period and will be able to secure financing so as to be able to continue to meet its liabilities as they fall due. For more detail see page 60 of the AA Limited group's Annual Report. However, as noted above, the refinancing of the Class A5 Notes, due on 31 January 2022, is not committed at the date of issue of these financial statements. Further to this, the Company has intercompany receivables from and payables to other members of the AA Intermediate Co Limited group, for which settlement is dependent on successful refinancing. This has been reviewed by the directors of the Company in the context of its status as an obligor of the AA Intermediate Co Limited group's borrowings. These circumstances indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern for a period of in excess of a year from the date of issue of these financial statements.

The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

ON BEHALF OF THE BOARD



K J DANGERFIELD
DIRECTOR
14 June 2021

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 2021 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; 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 2021; 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.

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1.2 to the financial statements concerning the Company's ability to continue as a going concern. The Company is an obligor of the AA Intermediate Co Limited group's borrowings and forms part of the corresponding debt security group for which the refinancing of the Class A5 Notes, due on 31 January 2022, is not committed at the date of issue of these financial statements. These conditions, along with the other matters explained in note 1.2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- We obtained evidence that the takeover by TowerBrook Capital Partners (U.K.) LLP and Warburg Pincus International LLC (together, "the Consortium") was approved by the courts on 8 March 2021 and examined documents in support of the equity contribution to be made by the Consortium and the new debt facilities available to the Group.
- We checked the consistency of the cash flows for the next 12 months used in the going concern assessment, including considering the impact of COVID-19, with trading performance over the last financial year and in the period since. We found the key cash flow assumptions to be consistent with recent trading experience.
- We vouched the cash on hand and available facilities in the directors' going concern assessment to our year end audit work.
- We examined the potential downside sensitivities that the directors had applied and considered their likelihood and whether other scenarios, or more severe scenarios, could apply and the associated impact on headroom.
- We evaluated the results of a reverse stress test and assessed the likelihood of a number of scenarios that could erode the headroom.
- We read the basis of preparation note in note 1.2 and the disclosures in the Directors' Report and validated they accurately describe the directors' considerations in this area.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2021 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, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of regulatory requirements and unethical and prohibited business practices, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase profit and the potential for management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussion with management, internal audit, internal compliance, internal legal counsel and enquiries of the Company's legal advisors, including consideration of known or suspected instances of non-compliance with laws and regulations, and fraud.
- Challenging significant accounting assumptions and judgements individually and collectively for indications of management bias, in particular in relation to the subsidiary investment impairment assessment.
- Designing risk filters to search for journal entries, such as those posted with unusual account combinations or posted by members of senior management with a financial reporting oversight role, and testing those journals highlighted (if any).
- Incorporating elements of unpredictability into the audit procedures performed.
- Reviewing the disclosures in the Annual Report and financial statements against the specific legal requirements, for example within the Directors' Report.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

We have no exceptions to report arising from this responsibility.

Stuart Newman

Stuart Newman (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
14 June 2021

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 JANUARY

	Note	2021 £m	2020 £m
Revenue	2	585.6	610.0
Cost of sales		(304.6)	(332.0)
GROSS PROFIT		281.0	278.0
Administrative and marketing expenses		(265.0)	(254.9)
OPERATING PROFIT	4	16.0	23.1
Income from shares in group undertakings	7	48.6	240.2
Finance income	8	31.5	29.4
Finance costs	9	(3.1)	(9.8)
PROFIT BEFORE TAX		93.0	282.9
Income tax expense	10	(6.1)	(2.7)
PROFIT FOR THE FINANCIAL YEAR		86.9	280.2

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

	2021	2020
	£m	£m
PROFIT FOR THE YEAR	86.9	280.2
OTHER COMPREHENSIVE INCOME/(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	-	(1.1)
Tax effect	<u>0.2</u>	<u>-</u>
	0.2	(1.1)
OTHER COMPREHENSIVE (EXPENSE)/INCOME ON ITEMS THAT WILL NOT BE RECLASSIFIED TO THE INCOME STATEMENT IN SUBSEQUENT YEARS		
Remeasurement on (losses)/gains on defined benefit pension schemes (see note 21)	(52.9)	48.2
Current tax on remeasurements of pension liability	4.2	-
Deferred tax on remeasurements of pension liability	5.9	(8.2)
	<u>(42.8)</u>	<u>40.0</u>
TOTAL OTHER COMPREHENSIVE (EXPENSE)/INCOME	(42.6)	38.9
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>44.3</u>	<u>319.1</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	2021 £m	2020 £m
NON-CURRENT ASSETS			
Deferred tax assets	11	4.3	-
Investments in subsidiaries	12	502.2	502.2
Investments in joint ventures and associates	12	0.5	0.5
Intangible assets	13	36.4	35.0
Property, plant and equipment	14	34.7	34.1
Right-of-use assets	15	51.8	65.1
Trade and other receivables	17	2.7	3.1
		<u>632.4</u>	<u>640.0</u>
CURRENT ASSETS			
Inventories	16	3.5	4.0
Trade and other receivables	17	1,387.4	1,283.5
Current tax receivable		5.4	7.5
Cash and cash equivalents	35	101.1	45.7
		<u>1,497.6</u>	<u>1,340.7</u>
Assets classified as held for sale	31	-	2.5
TOTAL ASSETS		<u>2,130.0</u>	<u>1,983.2</u>
CURRENT LIABILITIES			
Trade and other payables	18	(582.1)	(360.1)
Provisions	19	(4.7)	(3.1)
Lease liabilities	20	(18.0)	(22.9)
		<u>(604.8)</u>	<u>(386.1)</u>
NON-CURRENT LIABILITIES			
Lease liabilities	20	(33.6)	(43.2)
Defined benefit pension scheme liabilities	21	(178.6)	(148.0)
Deferred income		(0.6)	(0.7)
Deferred tax liabilities	11	-	(3.6)
Provisions	19	(7.5)	(5.8)
Derivative financial instruments	32	(1.2)	(1.2)
		<u>(221.5)</u>	<u>(202.5)</u>
TOTAL LIABILITIES		<u>(826.3)</u>	<u>(588.6)</u>
NET ASSETS		<u>1,303.7</u>	<u>1,394.6</u>
EQUITY			
Share capital	34	0.1	0.1
Cash flow hedge reserve		(1.0)	(1.2)
Retained earnings		1,304.6	1,395.7
TOTAL EQUITY		<u>1,303.7</u>	<u>1,394.6</u>

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



K J DANGERFIELD
DIRECTOR
14 June 2021

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 equity
	£m	£m	£m	£m
At 1 February 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)
Equity-settled share-based payments (see note 25)	-	-	2.9	2.9
At 31 January 2020	0.1	(1.2)	1,395.7	1,394.6
Profit for the year	-	-	86.9	86.9
Other comprehensive expense	-	0.2	(42.8)	(42.6)
Total comprehensive income	-	0.2	44.1	44.3
Dividends	-	-	(138.9)	(138.9)
Equity-settled share-based payments (see note 25)	-	-	3.7	3.7
At 31 January 2021	0.1	(1.0)	1,304.6	1,303.7

The dividend paid per share is £1,389 (2020: £1,295).

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	2021 £m	2020 £m
Profit before tax		93.0	282.9
Amortisation and depreciation	13,14,15	43.9	44.0
Net finance income	8,9	(28.4)	(19.6)
Equity-settled share-based payments	25	3.7	2.9
Profit on disposal of fixed assets		(1.1)	(7.0)
Loss on disposal of subsidiary undertaking		0.4	-
Income from shares in group undertakings	7	(48.6)	(240.2)
Impairment of investments in joint ventures	12	1.2	1.8
Difference between pension charge and cash contributions		(19.7)	(20.4)
Working capital and provisions:			
Decrease in trade and other receivables		6.6	1.5
Decrease in stock		0.5	0.3
Increase/(decrease) in trade and other payables		112.0	(109.1)
Increase in provisions		3.3	4.9
Total working capital and provisions adjustments		122.4	(102.4)
Net cash flows generated from/(used in) operating activities before tax		166.8	(58.0)
Tax (charge)/credit		(2.0)	9.7
Net cash flows generated from/(used in) operating activities		164.8	(48.3)
Investing activities			
Capital expenditure		(20.3)	(28.5)
Income from shares in group undertakings	7	48.6	240.2
Proceeds from sale of fixed assets		1.0	9.8
Investments in joint ventures		(1.2)	(0.5)
Proceeds from sale of subsidiary, net of cash sold		2.1	-
Interest received		29.1	25.6
Net cash flows from investing activities		59.3	246.6
Financing activities			
Lease capital repayments		(26.7)	(27.6)
Payment of lease interest		(2.9)	(4.1)
Interest paid on borrowings		(0.2)	-
Dividends paid		(138.9)	(129.5)
Net cash flows used in financing activities		(168.7)	(161.2)
Net increase in cash and cash equivalents		55.4	37.1
Cash and cash equivalents at 1 February		45.7	8.6
Cash and cash equivalents at 31 January	35	101.1	45.7

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 England and Wales, 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 statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

These financial statements have been prepared under the historic 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 Limited, which prepares consolidated financial statements which are publicly available.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Going concern

The Company has adequate financial resources due to the Company's own net current asset position. The directors have reviewed projected cash flows for a period of one year from the date of signing these financial statements and have concluded that the Company has sufficient funds to continue trading for this period and the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Further, the directors believe that the Company has adequate financial resources due to the available cash resources of the AA Limited group and more specifically, the AA Intermediate Co Limited group, which can be drawn upon.

For the AA Limited group's longer-term viability, it remains a key assumption of its directors that the AA Limited group continues to have ready access to public debt markets to enable its borrowings to be refinanced in due course. The AA Limited group directors propose a refinancing of the group's Class A5 Notes in advance of their maturity on 31 January 2022. The directors understand that the outstanding £1,997m Class A Notes are trading at a price near par with yields below 4% which indicate that the debt market considers the refinancing risk of the Class A5 Notes to be low. Given the significant deleveraging of the debt at both A Notes and B Notes level, the current pricing of A Notes in the secondary debt markets and the existing Investment Grade rating of BBB- of the A Notes to be issued, the directors are, on this basis, confident that this refinancing will be successful. At the date of approval of these financial statements, there is no other debt with a maturity date within 12 months from the issue of these financial statements.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1.2 Basis of preparation (continued)

Going concern (continued)

The AA Limited group directors have considered these points along with the projected cash flows, for a period of one year from the date of approval of these financial statements and have concluded that they have confidence that the AA Limited group will have sufficient funds to continue trading for this period and will be able to secure financing so as to be able to continue to meet its liabilities as they fall due. For more detail see page 60 of the AA Limited group's Annual Report. However, as noted above, the refinancing of the Class A5 Notes, due on 31 January 2022, is not committed at the date of issue of these financial statements. Further to this, the Company has intercompany receivables from and payables to other members of the AA Intermediate Co Limited group, for which settlement is dependent on successful refinancing. This has been reviewed by the directors of the Company in the context of its status as an obligor of the AA Intermediate Co Limited group's borrowings. These circumstances indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern for a period of in excess of a year from the date of issue of these financial statements.

The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

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.

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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1.3 Accounting policies (continued)

a) Critical accounting estimates and judgements (continued)

Leases

The Group recognises lease liabilities in relation to leases, measured at the present value of the minimum lease payments, discounted using the discount rate implicit in the lease, or, where this is not available, the corresponding incremental borrowing rate as at the date of inception of the lease. Management's approach to determining the incremental borrowing rate for a right-of-use asset involves using data provided by the Group's external advisers on the rate of interest that the Group 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.

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.

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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1.3 Accounting policies (continued)

e) Software and development costs

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

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

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

f) 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

Lease liabilities

Lease liabilities are measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate.

Measurement of right-of-use assets

The associated right-of-use assets for leases are initially measured at the amount equal to the initial lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position.

Subsequently the right-of-use assets are depreciated over their lease terms.

For property leases, where a decision has been made prior to the year end to permanently vacate the property, the right-of-use asset is impaired to the extent that the value cannot be recovered through rental or other income expected to be received up to the estimated date of final disposal.

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 operated a number of equity-settled, share-based payment compensation plans for employees on behalf of the ultimate parent undertaking, AA Limited. 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.

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.

Disaggregation of revenue:

	2021 £m	2020 £m
Roadside:		
Consumer (B2C)		
Insured contracts	310.9	327.4
Pay for use contracts ¹	48.2	46.3
Business Services (B2B)		
Insured contracts	31.8	33.1
Pay for use contracts ¹	176.5	170.9
Roadside other	18.2	32.3
Total Roadside	585.6	610.0

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 income 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

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

		for the year ended 31 January	
	Note	2021 £m	2020 £m
Trading EBITDA		69.3	73.6
Share-based payments	25	(3.9)	(2.9)
Pension service charge adjustment		(4.4)	(4.6)
Amortisation and depreciation	13,14,15	(43.9)	(44.0)
Adjusting operating items	5	(1.1)	1.0
Operating profit	4	16.0	23.1

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 Limited group's debt documents and is used for calculating debt covenants. Given the significance of the AA Limited 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 Limited group and its business segments.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4 OPERATING PROFIT

Operating profit is stated after charging:

	2021	2020
	£m	£m
Amortisation of owned intangible assets (see note 13)	9.4	5.6
Depreciation of		
- Owned tangible fixed assets (see note 14)	8.6	10.8
- Right-of-use assets (see note 15)	25.9	27.6
Brand royalty payment (see note 22)	74.3	77.3
Corporate recharge	71.7	65.9

Auditors' remuneration in respect of the audit of the Company's financial statements for the year ended 31 January 2021 amounted to £289,000 (2020: £283,000). 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

	2021		2020
	£m		£m
Adjusting operating items	(1.1)		1.0
	(1.1)		1.0

Adjusting operating items in the year ended 31 January 2021 comprised £4.4m recharges of group adjusting operating costs, £1.2m impairment of investment in joint ventures (see note 12) and £0.4m loss on disposal of subsidiary undertaking offset by £3.8m Government furlough support in respect of COVID-19 and a £1.1m gain on disposal of non-current assets.

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

6 EMPLOYEE COSTS

Employee costs during the year were as follows:

	2021	2020
	£m	£m
Wages and salaries	149.4	165.1
Social security costs	15.8	17.7
Other pension costs	22.3	22.5
Share-based payments	3.9	2.9
	191.4	208.2

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

6 EMPLOYEE COSTS (continued)

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

	2021	2020
Operational	5,835	6,231
Management and administration	1,108	1,071
	6,943	7,302

7 INCOME FROM SHARES IN GROUP UNDERTAKINGS

	2021 £m	2020 £m
Dividends from subsidiary undertakings	48.6	240.2
	48.6	240.2

8 FINANCE INCOME

	2021 £m	2020 £m
Bank interest receivable	0.4	0.7
Finance income in respect of ABF scheme (see note 22)	10.5	10.8
Return on investment in AA Pension Funding LP (see note 22)	18.0	17.9
Net finance income on defined benefit pension schemes	2.6	-
	31.5	29.4

9 FINANCE COSTS

	2021 £m	2020 £m
Finance charges payable on lease liabilities	2.9	4.6
Net finance expense on defined benefit pension schemes	-	5.0
Other finance charges	0.2	0.2
	3.1	9.8

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

10 INCOME TAX EXPENSE

The income tax expense is made up as follows:

	2021 £m	2020 £m
Current tax:		
- UK Corporation Tax at 19.0% (2020: 19.0%)	6.2	0.3
- Group relief payable	1.8	-
- Adjustments in respect of prior periods	(0.1)	0.2
Total current tax charge	7.9	0.5
Deferred tax:		
- Origination and reversal of temporary differences	(1.9)	2.7
- Adjustments in respect of prior periods	(0.3)	(0.2)
- Rate change adjustment on temporary differences	0.4	(0.3)
Total deferred tax (credit)/charge	(1.8)	2.2
Total income tax expense on ordinary activities	6.1	2.7

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

	2021 £m	2020 £m
Profit before tax	93.0	282.9
Tax at rate of 19.0% (2020: 19.0%)	17.7	53.8
Effects of:		
- Adjustments in respect of prior periods	(0.4)	-
- Expenses not deductible for tax purposes	2.0	(0.2)
- Non-taxable dividend income	(9.2)	(45.6)
- Rate change adjustment on temporary differences	0.4	(0.3)
- Use of group losses	(4.4)	(5.0)
Income tax expense reported in the income statement	6.1	2.7

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	
	2021 £m	2020 £m	2021 £m	2020 £m
Decelerated capital allowances	5.4	5.1	(0.3)	0.6
Other short-term temporary differences	2.1	0.6	(1.3)	(0.1)
Pensions	(2.0)	(7.9)	-	1.7
Share based payments	0.3	-	(0.3)	-
Capital gains rolled over	(1.5)	(1.4)	0.1	-
Deferred tax assets/(liabilities)	4.3	(3.6)	(1.8)	2.2
			£m	£m
Deferred tax (liabilities)/assets as at 1 February			(3.6)	6.8
Credit/(charge) to the income statement			1.8	(2.2)
Credit/(charge) recognised in other comprehensive income			6.1	(8.2)
Deferred tax assets/(liabilities) as at 31 January			4.3	(3.6)

The March 2020 budget announced that the expected reduction in tax rate to 17% would be cancelled and the 19% rate retained after 1 April 2020. The effect of cancelling the tax rate reduction was an increase in the value of the deferred tax liability as at 31 January 2020 by £0.4m. This £0.4m rate change has been reflected in the current year deferred tax credit. The March 2021 budget announced that the main corporation tax rate will increase to 25% in April 2023. The increased rate will not impact on the Company's current tax for the year ending 31 January 2022. As this new rate is expected to be enacted later in 2021 an assessment will be made on the carrying value of the Company's deferred tax balance, depending on the expected timing of reversals, for the year ending 31 January 2022.

Deferred tax has been recognised at an overall rate of 19% at 31 January 2021 (2020: 17%). The rate has been adjusted to reflect the expected reversal profile of the Company's temporary differences.

A deferred tax asset of £0.3m (2020: £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	(2.5)	-
Disposals	-	(2.1)
At 31 January 2020	556.6	2.3
Additions	-	1.2
At 31 January 2021	556.6	3.5
Accumulated impairment		
At 1 February 2019	54.4	2.1
Disposals	-	(2.1)
Impairment charge	-	1.8
At 31 January 2020	54.4	1.8
Impairment charge	-	1.2
At 31 January 2021	54.4	3.0
Net book value		
At 31 January 2021	502.2	0.5
At 31 January 2020	502.2	0.5

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 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
Additions	-	11.3	11.3
Reclassification	-	(0.4)	(0.4)
Disposals	-	(7.5)	(7.5)
At 31 January 2021	7.6	60.0	67.6
Accumulated amortisation and impairment			
At 1 February 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
Amortisation	-	9.4	9.4
Disposals	-	(7.4)	(7.4)
At 31 January 2021	7.6	23.6	31.2
Net book value			
At 31 January 2021	-	36.4	36.4
At 31 January 2020	-	35.0	35.0

Within software, £5.7m (2020: £12.6m) relates to assets under construction which are not amortised.

Software additions comprise £3.3m (2020: £5.2m) in relation to internally developed assets and £8.0m (2020: £15.5m) 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 2019	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
Additions	-	-	0.1	8.8	8.9
Reclassification	-	-	-	0.4	0.4
Disposals	-	-	(3.8)	(7.8)	(11.6)
At 31 January 2021	9.4	10.8	0.1	60.6	80.9
Accumulated depreciation					
At 1 February 2019	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
Charge for year	0.2	0.3	-	8.1	8.6
Disposals	-	-	(3.8)	(7.7)	(11.5)
At 31 January 2021	4.3	9.7	-	32.2	46.2
Net book value					
At 31 January 2021	5.1	1.1	0.1	28.4	34.7
At 31 January 2020	5.3	1.4	-	27.4	34.1

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

15 RIGHT-OF-USE ASSETS

	Property £m	Vehicles & equipment £m	Total £m
Cost			
At 1 February 2019	22.8	117.5	140.3
Additions	-	34.4	34.4
Disposals	-	(71.3)	(71.3)
At 31 January 2020	22.8	80.6	103.4
Additions	0.2	13.5	13.7
Disposals	(1.9)	(19.2)	(21.1)
At 31 January 2021	21.1	74.9	96.0
Accumulated depreciation			
At 1 February 2019	-	52.1	52.1
Charge for the year	2.4	25.2	27.6
Disposals	-	(41.4)	(41.4)
At 31 January 2020	2.4	35.9	38.3
Charge for the year	2.4	23.5	25.9
Disposals	(1.6)	(18.4)	(20.0)
At 31 January 2021	3.2	41.0	44.2
Net book value			
At 31 January 2021	17.9	33.9	51.8
At 31 January 2020	20.4	44.7	65.1

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

16 INVENTORIES

	2021	2020
	£m	£m
Finished goods and goods for resale	<u>3.5</u>	<u>4.0</u>

17 TRADE AND OTHER RECEIVABLES

	2021	2020
	£m	£m
Current		
Trade receivables	39.2	45.9
Amounts owed by group undertakings	1,318.3	1,208.0
Other receivables	5.4	2.3
Contract assets	12.7	12.5
Prepayments	11.3	14.3
Lease receivables	0.5	0.5
	<u>1,387.4</u>	<u>1,283.5</u>
Non-current		
Lease receivables	<u>2.7</u>	<u>3.1</u>

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

18 TRADE AND OTHER PAYABLES

	2021	2020
	£m	£m
Trade payables	15.2	23.0
Amounts owed to group undertakings	333.0	117.5
Accruals	39.5	27.4
Deferred income	167.6	167.7
Other taxes and social security costs	19.6	20.5
Other payables	7.2	4.0
	<u>582.1</u>	<u>360.1</u>

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

19 PROVISIONS

	Property leases £m	Self- funded insurance £m	Other £m	Total £m
At 1 February 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
Utilised during the year	-	(5.0)	-	(5.0)
Released during the year	(0.1)	-	-	(0.1)
Charge for the year	0.6	6.2	1.6	8.4
At 31 January 2021	3.9	6.7	1.6	12.2
Current	0.7	2.4	1.6	4.7
Non-current	3.2	4.3	-	7.5
At 31 January 2021	3.9	6.7	1.6	12.2
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

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.

Self-funded insurance liabilities occur where the Company provides for the cost of certain claims made against it, for example motor vehicle accident damage and employer liability claims.

Other provisions include £1.6m (2020: £nil) relating to anticipated redress costs. During the current financial year, the Company identified that there had been limited instances whereby consumer renewal pricing needs to realign with regulatory requirements. Consequently, the Company has provided for the costs of redress to affected customers, which is expected to be paid out during the next year.

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:

	2021		2020	
	Present value of payments £m	Minimum payments £m	Present value of payments £m	Minimum payments £m
Within one year	18.0	19.7	22.9	25.5
Between one and five years	21.2	24.0	27.3	31.2
After five years	12.4	21.5	15.9	25.6
Total minimum lease payments	51.6	65.2	66.1	82.3
Less amounts representing finance charge	-	(13.6)	-	(16.2)
Present value of minimum lease payments	51.6	51.6	66.1	66.1

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.

Capital commitments

At the year end, the Company had capital commitments of £1.3m (2020: £2.7m).

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 2021, the principal outstanding on the AA Intermediate Co Limited group debt was £2,766.7m (2020: £2,767.0m).

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

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21 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 a closed final salary section and a Career Average Revalued Earnings (CARE) section which itself was closed from 1 April 2020 following consultation with affected employees. All future pensions build-up from 1 April 2020 in the UK is now on a defined contribution basis. 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 2021 by independent qualified actuaries.

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

	As at 31 January 2021		
	AAUK £m	AAPMP £m	Total £m
Present value of the defined benefit obligation in respect of pension plans	(2,713.5)	(45.7)	(2,759.2)
Fair value of plan assets	2,580.6	-	2,580.6
Deficit	(132.9)	(45.7)	(178.6)

	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)

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21 PENSIONS (continued)

The increase in the deficit is primarily due to the financial markets experiencing a reduction in corporate bond yields which drive the discount rate, in combination with increasing future inflation expectations. This was partially offset by the performance of plan assets being above expectations.

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 Limited group's brands.

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 to 2026 in respect of the Additional Funding element. A new recovery plan has now been put in place and agreed with the trustee which assumes that the scheme's technical deficit will be fully repaid by July 2025, which is one 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 group 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 has also met its own costs of running the scheme. As a result, annual cash costs for the group are expected to reduce by around £6m.

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 confirmed on 27 March 2020 that the proposals were going to be implemented on a modified basis and future pension accrual would 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 previous costs in the AAUK 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 impact of COVID-19 on the global financial markets has meant 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.

Using an inflation assumption of 3.0% and a discount rate assumption of 1.5%, the present value of the future deficit reduction contributions has been calculated. Based on these assumptions, the Company expects the present value of deficit reduction contributions to exceed the IAS 19 deficit. The Company notes that, in the event that a surplus emerges, it would have an unconditional right to a refund of the surplus assuming the gradual settlement of AAUK scheme liabilities over time until all members have left the scheme.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21 PENSIONS (continued)

In total, the Company paid £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.

During the year, the Company recognised a one-off past service cost of £1m as a result of the supplementary ruling in the Lloyds Bank Guaranteed Minimum Pensions (GMP) equalisation case with respect to members that transferred out of their scheme prior to the ruling.

The Company has been informed by the trustee of the AAUK scheme of a possible need to review the scheme's approach to 'equalising' certain pension benefits earned before 1 April 1992, so that the benefits earned by male and female members are equal. This requirement, stemming from EU law, is common to most UK defined benefit pension schemes. In simple terms, this requires some pre-1992 pensions to be treated as if payable from a more generous age of 60, rather than the AAUK scheme's normal retirement age of 65. Action was taken in 1992 to put in place a mechanism for equalisation of these benefits, but the trustee has raised questions about the effectiveness of the mechanism used.

This is a highly technical matter that relates only to the benefits of members who joined certain sections of the AAUK scheme before 1 November 1987 and remained in service after 17 May 1990. At this early stage of our analysis, we consider the scope of potentially impacted benefits to be limited to those accrued in the period 17 May 1990 to 31 March 1992. A detailed legal analysis will be needed to determine whether any additional liabilities need to be recognised by the Company or whether the existing methods used by the AAUK scheme trustee to equalise benefits are in fact valid. Without this detailed analysis, as well as obtaining scheme information dating back to the 1990s, making a reliable estimate of the potential impact is extremely difficult due to the range of possible conclusions (including a scenario where no additional liability is recognised). Given the need for this extensive legal analysis and information collation, a reliable estimate is unavailable at this stage.

The Company recognised a charge in the income statement of £15.8m in respect of defined contribution pension scheme costs in the year (2020: £5m). This increase in the current year is due to pension accrual being fully on a defined contribution basis from 1 April 2020.

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 2020	2,471.8	(2,619.8)	-	-
Current service cost	-	(4.4)	(4.4)	-
Past service gain	-	(0.5)	(0.5)	-
Interest on defined benefit scheme assets/(liabilities)	51.3	(48.7)	2.6	-
Amounts recognised in the income statement	51.3	(53.6)	(2.3)	-
Effect of changes in financial assumptions	-	(168.2)	-	(168.2)
Effect of changes in demographic expectations	-	(7.7)	-	(7.7)
Effect of experience adjustment	-	12.4	-	12.4
Return on plan assets excluding interest income	110.6	-	-	110.6
Amounts recognised in the statement of comprehensive income	110.6	(163.5)	-	(52.9)
Contribution from scheme participants	0.3	(0.3)	-	-
Benefits paid from scheme assets	(78.0)	78.0	-	-
Ongoing employer contributions	5.3	-	-	-
Deficit reduction employer contributions	23.7	-	-	-
Administrative expenses	(4.4)	-	-	-
Movements through cash	(53.1)	77.7	-	-
Balance at 31 January 2021	2,580.6	(2,759.2)	-	-

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)

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

	2021		2020	
	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	-	360.1	-	243.4
Bonds/swaps	438.6	562.5	474.0	571.8
Property	31.0	238.5	31.8	255.5
Hedge funds	29.5	286.7	1.0	299.5
Private Equity	-	69.1	-	44.3
Cash/net current assets	26.3	12.4	14.6	8.7
Annuity	-	525.9	-	527.2
Total plan assets	525.4	2,055.2	521.4	1,950.4
Actual return on AAUK plan assets	161.9		265.9	

The above table displays the quoted and unquoted splits of the underlying investments.

The AAUK scheme assets are largely invested in pooled funds, with the market values provided by the scheme's custodian, Bank of New York Mellon Corporation ("BNYM"). Some of the pooled funds themselves are not listed on any publicly traded exchange and are therefore described as unquoted except where we are aware of a specific look-through to allow part of the assets within the fund to be described as quoted.

Of the £2,055m assets without a quoted market price at 31 January 2021, £526m is in relation to the buy-in policies held by the scheme. Under IAS 19, the fair value of the insurance policies is deemed to be the present value of the related defined benefit obligations. Hence a key area of judgement is the assumptions used to derive the value of the corresponding obligations.

Approximately £36m of unquoted assets allocated to private equity and £9m of unquoted assets allocated to property have been measured at amortised cost rather than fair value.

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 and gilts 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	
	2021 %	2020 %	2021 %	2020 %
Pensioner discount rate	1.5	1.6	1.5	1.6
Non-pensioner discount rate	1.6	1.8	1.5	1.6
Pensioner RPI	3.0	2.9	3.0	2.9
Non-pensioner RPI	2.8	2.8	3.0	2.9
Pensioner CPI	2.2	2.0	2.2	2.0
Non-pensioner CPI	2.3	2.0	2.2	2.0
Rate of increase of pensions in payment (final salary sections) - pensioner	2.9	2.8	-	-
Rate of increase of pensions in payment (final salary sections) - non-pensioner	2.8	2.8	-	-
Rate of increase of pensions in payment (CARE section) - pensioner	1.8	1.7	-	-
Rate of increase of pensions in payment (CARE section) - non-pensioner	1.9	1.7	-	-
Pensioner increase for deferred benefits	2.3	2.0	-	-
Medical premium inflation rate	-	-	7.0	6.9

Mortality assumptions are set using standard tables based on scheme-specific experience where available and an allowance for future improvements. For 2021, the assumptions used were in line with the SAPS (S3) series mortality tables with scheme-specific adjustments (2020 – SAPS (S3) series with scheme-specific adjustments) with future improvements in line with the CMI_2019 model with a 1.25% long-term rate of improvement (2020 – CMI_2018 model with a 1.25% long-term rate of improvement). The AAI scheme mortality assumptions are set using standard tables with scheme-specific adjustments.

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 (2020: 25 years) and an active female retiring in normal health currently aged 60 will live on average for a further 28 years (2020: 28 years).

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 2021	
	AAUK £m	AAPMP £m
Increase of 0.25% in discount rate	134.6	2.0
Increase of 0.25% in RPI and CPI	(109.6)	-
Increase of 0.25% in CPI only	(47.0)	-
Increase of 1% in medical claims inflation	-	(7.0)
Decrease of 1% in medical claims inflation	-	8.2
Increase of one year of life expectancy	(110.7)	-

An equivalent decrease in the assumptions at 31 January 2021 would have had a broadly equal but opposite effect on the amounts shown above, on the basis that all other variables remain constant. The amounts shown above are the effects of changing the assumptions on the gross defined benefit liability, rather than on the net deficit. The de-risked investment strategy, the two insured annuity policies and high levels of hedging reduce the sensitivities of changing these assumptions on the net deficit considerably.

The weighted average duration of the defined benefit obligation at 31 January 2021 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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21 PENSIONS (continued)

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

The AAUK scheme aims to hedge the majority of both the interest rate risk and inflation risk (of the non-insured liabilities on the scheme-specific self-sufficiency measure) as part of a policy to reduce financial risks. As at 31 January 2021, the scheme had hedged around 70-75% of interest rate and inflation risk (of the non-insured liabilities on the scheme-specific self-sufficiency measure). Hedging levels fluctuate regularly as market conditions evolve and the scheme trustees, along with their advisers, closely monitor these fluctuations. Where changes are needed to the level of hedging, the scheme trustees effect this, in consultation with the Company, with consideration to prevailing pricing and risk appetite.

Bulk annuity policy purchase

The AAUK scheme holds two bulk annuity policies with a total fair value of £526m as at 31 January 2021. The bulk annuity policy purchased in August 2018 insured all the benefits payable under the scheme in respect of 2,510 pensioner and dependant members, while the bulk annuity policy purchased in September 2019 insured all the benefits payable under the scheme in respect of a further 1,790 pensioner and dependant members.

The trustee has invested in such policies as the scheme will see all financial and demographic risks exactly matched for the covered members. The annuity policies were purchased in the name of the trustee and therefore remain assets of the AAUK scheme. Under IAS 19, these policies are considered to be qualifying insurance policies which exactly match the amount and timing of certain benefits payable under the scheme. The fair value of the insurance policies is therefore deemed to be the present value of the related defined benefit obligations.

The bulk annuity policies mean that the AAUK scheme has 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 £74.3m (2020: £77.3m) included in net administrative expenses.

As part of the initial set up of the asset backed funding scheme, the Company made an initial partnership contribution to the Scottish Limited Partnership of £367.6m (included within amounts owed by group undertakings). The deficit reduction payments are made to the pension scheme through the Scottish Limited Partnership. The balance of the partnership contribution accrues interest which is recorded as interest receivable in the income statement. In the year, this amounted to £18.0m (2020: £17.9m). Monthly repayments of the partnership contribution are made by the Scottish Limited Partnership which amounted to £17.1m (2020: £16.7m) in the year. The balance of the partnership contribution as at 31 January 2021 was £383.9m (2020: £383.0m) 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 £10.5m in the year (2020: £10.8m). 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 £14.5m (2020: £14.1m). The balance of the pension contribution as at 31 January 2021 was a receivable of £177.3m (2020: receivable £181.2m) and is repayable over 25 years up to 2038.

At 31 January 2021, the Company also had an intercompany payable balance due to the Scottish Limited Partnership of £2.6m (2020: intercompany payable of £2.6m) bringing the aggregate amount receivable to £558.6m (2020: £561.7m).

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 Limited 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 Limited 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 Limited 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:

	2021 £m
Share capital	0.1
Retained earnings	1,304.6
Total capital	1,304.7

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

	2021 £m	2020 £m
Financial assets at amortised cost		
Cash and cash equivalents (see note 35)	101.1	45.7
Trade receivables (see note 17)	39.2	45.9
Contract assets and other receivables (see note 17)	18.1	14.8
Amounts owed by group undertakings (see note 17)	1,318.3	1,208.0
Total financial assets	1,476.7	1,314.4

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

24 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Financial liabilities

	2021 £m	2020 £m
Financial liabilities at fair value through other comprehensive income		
Derivative financial instruments (see note 32)	1.2	1.2
Financial liabilities at amortised cost		
Trade payables (note 18)	15.2	23.0
Other payables and accruals (see note 18)	46.7	31.4
Lease liabilities (see note 20)	51.6	66.1
Amounts owed to group undertakings (see note 18)	333.0	117.5
Total financial liabilities	447.7	239.2

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.

As set out in the table above, derivative financial instruments were held at fair value during the two years to 31 January 2021. They have fair values based on quoted prices in active markets (Level 1) and their carrying value is therefore equal to their fair value.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

25 SHARE-BASED PAYMENTS

	2021 £m	2020 £m
Share-based payments – Performance Share Plan	1.9	0.7
Share-based payments – Retention Award	-	(0.2)
Share-based payments – Employee Share Incentive Plan	1.8	2.4
Total equity-settled share-based payments	3.7	2.9
NI on share-based payments	0.2	-
Total cash-settled share-based payments	0.2	-
Total share-based payments expense	3.9	2.9

Employee Share Incentive Plans

The AA Limited group had an all-Employee Share Incentive Plan (ESIP). Under the ESIP, employees were able to buy Partnership shares by making weekly or monthly payments into the ESIP. In addition, for every Partnership share an employee purchases AA Limited matched this on a 1:1 basis (Matching shares). The ESIP share-based payments were equity-settled. ESIP Matching shares were 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 2021 ¹	Weighted fair value per share £
FY19 ESIP Matching shares	See above	See above	2,112,491	0.86
FY20 ESIP Matching shares	See above	See above	3,434,333	0.55
FY21 ESIP Matching shares	See above	See above	6,021,013	0.30
Total			11,567,837	

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 Limited 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:

	Award Date	Vesting Date	2021 No. of shares outstanding	2020 No. of shares outstanding	2021 Weighted fair value per share £	2020 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	1,920,058	2,286,597	0.75	0.75
2018 CEO/CFO	7 November 2018	22 November 2021	1,355,371	1,950,412	0.86	0.86
2018 Award	7 November 2018	22 May 2021	3,542,026	4,387,044	0.86	0.86
2019 CEO	30 October 2019	29 October 2022	2,200,000	2,200,000	0.27	0.27
2019 Award	30 October 2019	29 October 2022	8,731,136	9,958,794	0.31	0.31
Total			18,897,197	21,931,453		

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 Limited group:

The Company is the principal employer for the AA Limited 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 £105.6m (2020: £98.7m).

A share-based payments cost of £3.9m (2020: £2.9m) 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 (2020: £8.0m) to AA Limited.

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 £71.7m including £4.4m of adjusting operating costs (2020: £65.9m including £4.1m 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 Limited group companies are as follows:

Entity	Relationship	2021 £m	2020 £m
AA Corporation Limited	Parent	(283.9)	(81.8)
Automobile Association Insurance Services Limited	Fellow subsidiary	1.7	-
AA Financial Services Limited	Fellow subsidiary	0.1	-
DriveTech Limited	Fellow subsidiary	0.3	-
Accident Assistance Services Limited	Fellow subsidiary	0.7	-
AA Senior Co Limited	Indirect parent	367.5	384.1
AA Mid Co Limited	Indirect parent	20.2	20.2
AA Limited	Indirect parent	10.0	8.0
AA Bond Co Limited	Fellow subsidiary	359.2	233.7
AA Technical Solutions Limited	Fellow subsidiary	0.1	0.2
AA Underwriting Insurance Company Limited	Fellow subsidiary	(32.9)	(24.5)
Longacre Claims Limited	Fellow subsidiary	-	0.1
Prestige Fleet Services Limited	Fellow subsidiary	-	(0.1)
AA Pension Funding LP	Subsidiary	558.5	561.7
AA Brand Management Limited	Subsidiary	(16.2)	(11.1)
		985.3	1,090.5

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

26 RELATED PARTY TRANSACTIONS (continued)

Transactions with associates:

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

Company	Nature of transaction	2021 £m	2020 £m
ARC Europe SA	Registration fees paid	1.1	1.4
ARC Europe SA	Claims	0.9	3.2

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	2021 £m	2020 £m
Drvn Solutions Limited	Supply of goods	2.8	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
AA Financial Services Limited	England and Wales, UK / A	Ordinary
Personal Insurance Mortgages and Savings Limited ²	England and Wales, UK / A	Ordinary
A.A. Pensions Trustees Limited ²	England and Wales, UK / A	Ordinary
Automobile Association Insurance Services Holdings Limited ²	England and Wales, UK / A	Ordinary
A A The Driving School Agency Limited ²	England and Wales, UK / A	Ordinary
AA Brand Management Limited ²	England and Wales, UK / A	Ordinary
Automobile Association Holdings Limited ²	England and Wales, UK / A	Ordinary and Deferred redeemable non-voting special dividend
Automobile Association Services Limited ²	England and Wales, UK / A	Limited by guarantee
AA Garage Services Limited ²	England and Wales, UK / A	Ordinary
AA Pension Funding LP ^{1,2}	England and Wales, UK / B	Membership Interest
AA Pension Funding GP Limited ²	England and Wales, UK / B	Ordinary

¹ This partnership is fully consolidated into the AA Limited 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.

² Directly owned by Automobile Association Developments Limited; all other subsidiaries are indirectly held.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

27 GROUP UNDERTAKINGS (continued)

Registered Office Key

Registered Office	Key
Fanum House, Basing View, Basingstoke, Hampshire, RG21 4EA, England	A
20 Castle Terrace, Edinburgh, EH1 2EN, Scotland	B

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
Drvn Solutions Limited (48% interest held) ¹	England	Roadside services

¹ Intelematics Europe Limited changed its name to Drvn Solutions Limited on 10 June 2020. The Group exercises joint control over Drvn Solutions Limited through its joint influence over key decision-making. Drvn Solutions Limited has A and B ordinary shares. The Group increased its shareholding in Drvn Solutions Limited from 32% to 48% on 29 April 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 Limited group and are employed by the Company.

Key management personnel consist of the Chief Executive Officer, Chief Financial Officer and the Group Executive Committee.

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

	2021 £m	2020 £m
Short-term employee benefits	4.5	4.1
Share-based payments	0.8	0.4
Total compensation paid to key management personnel	5.3	4.5

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

29 ULTIMATE PARENT UNDERTAKING AND ULTIMATE CONTROLLING PARTY

The Company is a wholly owned subsidiary of AA Corporation Limited, a company registered in England and Wales, 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. At 31 January 2021, the ultimate controlling party and parent undertaking was AA Limited (see note 36), 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 AA Limited and AA Intermediate Co Limited financial statements are available from the website www.theaacorporate.com/investors.

30 ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS

New accounting standards, amendments and interpretations adopted in the year

The Company did not identify any new accounting standards coming into effect in the current year with an 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 financial years beginning after 1 February 2021 but have not been applied by the Company in these financial statements. These are set out below (effective dates are UK effective dates).

- Amendments to IFRS 17 and IFRS 4, 'Insurance contracts', deferral of IFRS 9 (effective 1 January 2023)
- Amendments to IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (effective date to be confirmed)
- Amendments to IAS 1, 'Presentation of financial statements' on classification of liabilities (effective date to be confirmed)
- A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 17 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16 (effective date to be confirmed).
- IFRS 17 'Insurance Contracts' (effective 1 January 2023)

The Company did not identify any new accounting standards coming into effect in the financial year ending 31 January 2022 with an expected impact on the financial statements.

31 ASSETS CLASSIFIED AS HELD FOR SALE

As at 31 January 2020, 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 was £2.5m. This investment was subsequently sold on 21 May 2020.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

32 DERIVATIVE FINANCIAL INSTRUMENTS

	2021 £m	2020 £m
Liabilities		
Forward fuel contracts	(1.2)	(1.2)
	(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 (2020: £nil) and the liability is £1.2m (2020: £1.2m).

33 DIRECTORS' REMUNERATION

	2021 £m	2020 £m
Aggregate remuneration in respect of qualifying services	2.6	2.8
Money purchase scheme contributions	0.1	0.1
	2.7	2.9

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

Remuneration	1.2	1.5
Money purchase scheme contributions	0.1	0.1
	1.3	1.6

All directors of the Company were also directors of the ultimate parent undertaking (AA Limited) and/or fellow subsidiaries during the 2021 financial year. 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 (2020: nil) directors under a defined benefit scheme and 3 (2020: 3) under a money purchase scheme. There was no compensation to directors for loss of office in the year (2020: £nil).

34 SHARE CAPITAL

	2021 £m	2020 £m
Allotted, called up and fully paid		
100,000 (2020: 100,000) ordinary shares of £1 each	0.1	0.1

In the year ended 31 January 2021, the Company paid a dividend of £138.9m (2020: £129.5m).

35 CASH AND CASH EQUIVALENTS

	2021 £m	2020 £m
Cash at bank and in hand	101.1	45.7

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

36 EVENTS AFTER THE REPORTING PERIOD

The acquisition of AA Limited, the Company's ultimate parent undertaking

On 9 March 2021, the Company's ultimate controlling party and parent undertaking, AA Limited (previously AA plc), was acquired by Basing Bidco Limited, a company controlled by TowerBrook Capital Partners (U.K.) LLP and Warburg Pincus International LLC (together, 'the Consortium'). AA Limited's ordinary shares were de-listed from the London Stock Exchange on 10 March 2021. AA Limited was re-registered as a private limited company on 17 March 2021. A number of new holding companies were incorporated above Basing Bidco Limited and the ultimate parent undertaking of the Company became Basing Consortiumco Limited.

Share schemes

Following the acquisition of AA Limited, the Company's ESIP and PSP share schemes (see note 25) vested to differing extents on 8 March 2021 and the relevant underlying share awards were subsequently purchased by Basing Bidco Limited.

Contract with Nationwide Building Society

In March 2021, the Company announced the award of a new five-year contract with Nationwide through which it will offer Nationwide's Flexplus customers the Company's award-winning roadside assistance services, which they will be able to access fully through the Company's digital channels including the AA app. The service will go live from the first quarter of 2022.