

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2022

Registered number: 01878835

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

STRATEGIC REPORT

The directors present their report and audited financial statements of Automobile Association Developments Limited (referred to as “the Company”) for the year ended 31 January 2022.

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.

In the current year, the Company has shown a good recovery from the impact of COVID-19, with revenue, Trading EBITDA, and several key KPIs showing improvement.

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.

	2022	2021
Revenue (£m)	616	586
Trading EBITDA (£m)	87	69
Trading EBITDA margin (%)	14	12
Paid personal members excluding free memberships (000s) ^{1, 2}	3,177	3,111
Average income per paid personal member excluding free memberships (£) ^{1, 2}	169	167
Business customers (000s) ¹	8,842	8,702
Average income per Business customer (£) ¹	23	23
Number of breakdowns ('000s) ¹	3,072	3,014

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

² During the year we have revised the basis of the paid personal membership holding to exclude ancillary holdings. This has also resulted in a change to the average income per member.

Our Roadside business delivered significant top line growth with revenue up 5% in the year to £616m, driven by the increase in new business volumes seen in both business-to-consumer (B2C) and business-to-business (B2B) and the continued recovery of our developing businesses such as Driving Schools.

Trading EBITDA increased 26% to £87m and the Trading EBITDA margin increased 2% to 14%, driven by favourable trading performance in B2C and Driving Schools partially offset by higher garaging spend due to the higher number of breakdowns.

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STRATEGIC REPORT (continued)

Business-to-consumer

During the year, we revised the basis of the paid personal membership holding to exclude ancillary holdings. Under this new basis, the paid membership holding increased by 2.1% to 3.177m (2021: 3.111m). Under the old basis, paid membership increased by 2.7% to 3.253m (2021: 3.168m). Given the impact of the pandemic over the last two years, we were very pleased to see the paid personal membership base increase under both measures. The revised basis has been used in our measure of retention which increased to 81% (2021: 80%) on the new basis compared to 80% (2021: 78%) on the old basis. This improvement in our performance was supported by our market leading service at the roadside and through our contact centres.

Average income per paid member has also been recalculated using the new paid membership basis and increased in the year by £2 to £169 (2021: £167) reflecting the impact of inflation partly offset by strong new business growth but at lower-than-average transaction values.

Business-to-business

We successfully retained or extended all our major core roadside contracts this year, including JLR, Lotus, VWG, Ford, Suzuki, Arval, Rivus, LeasePlan, Hertz, Zenith, DAS and Admiral. In addition, we acquired new breakdown assistance business from Smart, Innovation Automotive, Bugatti, GKL Leasing and Scottish Water via new contract wins, as well as several new insurance contracts with Tempcover, Marshmallow, Kudo and Riverside. In addition, we continued to see growth in our holdings from our insurance partnerships offset with a continued and anticipated decline in the number of AVAs with our banking partners. Overall income for B2B grew slightly reflecting the benefit of higher pay-for-use income from the breakdowns we serviced and the additional services that we provided in supporting our motor manufacturing partners.

Average income per business customer remained stable at £23 (2021: £23). The sea change in EV adoption across the UK was a catalyst for the expansion of our EV Charge Post Operator (CPO) customer service operation, bringing support to new partners including Liberty Charge, EB Charging and Instavolt, and taking our total portfolio of CPOs to nine, with implementation of more new contracts scheduled for 2022. On the customer service front we were also appointed to provide contact centre and retention services for Toyota GB from March 2022 for their extended roadside programme.

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.

Roadside Other

Our Driving Schools business has recovered well from the impact of COVID-19 in the prior year following the lifting of government-mandated restrictions, resulting in revenue increasing significantly in the current year. This strong performance is further highlighted by the strengthening of the instructor base to 2,420 (2021: 2,205).

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STRATEGIC REPORT (continued)

Other

The Company recognised a one-off pension past service cost of £26m as a result of a legal review of the method of 'Barber' equalisation implemented for the AAUK scheme.

Leading counsel was engaged jointly by the Company and AAUK scheme trustee to provide a legal opinion in respect of the method of equalisation used to date. Following receipt of that opinion on 26 November 2021 the Company and the AAUK scheme trustee agreed to administer the AAUK scheme as per the opinion, crystallising the recognition of the one-off past service cost. These facts and circumstances were not present at the previous year end and so no liability was recognised in the prior year.

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 Group 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 brand.

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 was 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 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.

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. Closure of the scheme has curtailed the ongoing build-up of defined benefit risk for the Company.

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, pension past service costs, impairment of property, plant and equipment, net finance costs and tax expense. During the year, Trading EBITDA increased to £87m (2021: £69m).

Profit before tax reduced to £6m (2021: £93m) due to lower income from shares in group undertakings (see note 7) of £nil (2021: £49m). Further reasons for the reduction in profit before tax included an £3m impairment of property, plant and equipment, £26m pension past service cost and £21m adjusting operating items (see note 5).

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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 2022 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 Basing ConsortiumCo Limited during the 2022 financial year. Decisions, policies and procedures that may affect stakeholders were implemented at a Basing ConsortiumCo 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 Basing ConsortiumCo 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 2022.

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

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STRATEGIC REPORT (continued)

RISK MANAGEMENT FRAMEWORK

Overall Responsibility

The Board of Basing Topco Limited, the AA investment company controlled by Warburg Pincus and TowerBrook Capital Partners, is responsible for determining the level of risk that the AA is prepared to take, or that it is willing to accept, in order to achieve its strategic objectives. The levels of risk are articulated through a series of risk appetite statements, and we monitor ourselves closely against the statements through our risk governance and our risk management framework. The principles listed below have been applied to the entire AA Limited group (the AA) including Automobile Association Developments Limited. Further information about the corporate governance arrangements for the AA is set out in the Chair's Statement on page 4 and the Directors' Report on page 52-57 of the AA Limited's Annual Report and Accounts 2022.

Risk Governance

The AA operates a three lines of defence model to ensure that its risks and opportunities are identified, assessed, monitored and managed in line with its stated risk appetite.

The three lines of defence model can be summarised as follows:

- First line of defence: the business units that run the business, they are accountable for the day to day management of the AA, which includes identifying and managing their risks;
- Second line of defence: the AA's Group Risk and Compliance function, they are accountable for providing oversight, challenge and advice to the first line; and
- Third line of defence: the AA's Internal Audit function, they are accountable for providing assurance to the business by performing independent reviews of the first and second lines of defence.

Risk management framework

The AA's risk management framework aims to ensure that:

- risks are made visible;
- risks are discussed and understood;
- risks are owned and managed;
- appropriate action is taken;
- risks are used for opportunities; and
- we learn from our risk-taking.

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STRATEGIC REPORT (continued)

The risk management framework is comprised of the five pillars set out below.

Risk culture and governance	The processes and structures to demonstrate to the Topco Board that effective risk management, oversight and assurance is being undertaken for all key risks faced by the AA.
Strategy and objectives	The processes that set the AA's approach to risk management, including the direction it sets for taking and avoiding risks.
Risk identification and prioritisation	A set of key risk categories to identify where the AA has, or is likely to have, material risk exposures and the activities we perform to prioritise our actions.
Risk management and controls	A set of processes to review and assess the risk and control environment. Risks are assessed on an inherent (no controls), residual (with controls) and target basis to help senior management understand and manage their risk exposures. The AA will be undertaking a comprehensive review of its financial controls in 2022 as part of its continuous improvement of the risk management framework.
Risk reporting and communication	The information and reporting in place to support senior management in discharging their risk management accountabilities effectively and to help them make informed, risk-based decisions.

Principal Risk and Opportunities

Principal risks and opportunities are defined as the risks and opportunities that are likely to have a material impact on the AA's business strategy.

The principal risks faced by the AA over the last year are summarised in the table below. We monitor and assess these risks very closely to ensure they are managed appropriately and effectively.

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STRATEGIC REPORT (continued)

Principal risk: Customer Risk	Description The risk that the AA fails to constantly monitor, manage and develop the interaction between our agents and customers to ensure fair treatment and good outcomes.	Impact, likelihood and trend Products and services are continually evolving in the market and as customer needs are changing, there is a risk that products do not perform as customers expect and that they no longer deliver appropriate customer outcomes.
Risk trend: Stable	Mitigation The AA has a robust product governance framework in place to ensure that it continually reviews and adapts the products and services it offers to ensure customers receive fair treatment and good outcomes.	
Principal risk: Regulatory and legal environment	Description The risk of failing to comply with regulatory changes, obtain the required authorisations / licencing and meet reporting requirements imposed by relevant regulatory authorities.	Impact, likelihood and trend We are looking ahead to a new set of proposals coming into force in 2023 (Consumer Duty) that require a fundamental shift in mindsets across the financial services industry. A programme of work will commence in 2022 to ensure we remain well-positioned to support changes that will drive the highest standards of behaviour and support for retail consumers. We are also implementing IFRS17 to apply for our FY24 reporting and that requires accounting, system and operational changes.
Risk trend: Stable	Mitigation The AA has effective processes in place to proactively identify incoming regulatory change.	
Principal risk: Operational resilience	Description The risk of failure to adequately prepare, respond and recover from disruptive events or stress scenarios leading to disruptions to internal and external services provided by the AA.	Impact, likelihood and trend Disruptive events can have a severe impact on our ability to deliver the products and services we offer to our customers. 2021 saw a continuation of home working and intermittent disruption to businesses following the effects of the global pandemic. In addition, supply chain disruption impacted the availability of HGV drivers and fuel.
Risk trend: Increasing	Mitigation The AA has an effective homeworking infrastructure in place to mitigate the disruption of the global pandemic for office-based services. To address driver shortages, we adapted our recruitment and retention strategy, which included the introduction of training and apprenticeship initiatives. We also have processes in place to continually assess external events that may affect our operational resilience.	

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STRATEGIC REPORT (continued)

<p>Principal risk: Health and safety</p> <p>Risk trend: Stable</p>	<p>Description The risk we are unable to maintain the safety of our workforce and customers.</p> <p>Mitigation The AA has 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 to ensure that our control environment remains strong and effective.</p> <p>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 internally and externally.</p> <p>Monitoring and oversight of the management of our HSE risks is strong, with performance reviewed at our executive risk committee and Board meetings.</p> <p>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.</p>	<p>Impact, likelihood and trend Vehicles breaking down at the roadside is inherently dangerous and it is vital that we continue to maintain a safe environment for our members and for our workforce.</p>
<p>Principal risk: Financial risk</p> <p>Risk trend: Decreasing</p>	<p>Description The risk that the Company has insufficient liquid funds required for the business to operate. The Company is an obligor for the debt and there is a risk that the AA Limited Group is unable to refinance its maturing debt, or unable to do this at affordable cost.</p> <p>Mitigation Since the change of ownership of the AA Group, shareholders have injected £361m of new equity for the purpose of reducing debt. This has reduced refinancing costs for the debt that remains so that the AA has a sustainable financing structure. This has also supported the credit rating profile. The AA continues to monitor financial markets and pricing and cultivates relationships with credit rating agencies and bond investors. It seeks to refinance bonds well ahead of their maturity dates.</p>	<p>Impact, likelihood and trend The ability to finance the AA group is critical to the ongoing existence and operation of the Company. Credit rating, stakeholder management, financial market conditions and interest rates are all important factors. The position has become more favourable since change the of ownership, although financing costs of the AA Group are expected to increase as a result of rising interest rates as the economy sees higher levels of inflation.</p>

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STRATEGIC REPORT (continued)

Principal risk: Cyber security	Description The risk of failure to detect fraudulent or unauthorised modification of IT resources, physical or virtual theft of assets and events that compromise business critical data.	Impact, likelihood and trend Cyber-attacks are becoming more and more sophisticated and businesses are becoming increasingly vulnerable to cyber threats due to their reliance on IT infrastructure.
Risk trend: Increasing	Mitigation The AA has a clearly defined cyber security strategy and it invests significant resources in controls that enable it to prevent, identify, detect and correct potential cyber-related issues. In addition, 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.	

Principal risk: Macroeconomic risk	Description The risks that the uncertain macroeconomic conditions may affect the Company's prospects.	Impact, likelihood and trend Economic uncertainty is expected to remain high as a result of the global pandemic and geopolitical risks arising from the Russian war on Ukraine
	Mitigation The AA continues to monitor financial markets and the external environment.	

ON BEHALF OF THE BOARD



T MACKAY
DIRECTOR
13 June 2022

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)
S J Breakwell	(Resigned 14 April 2021)
G R Kirkwood	(Resigned 29 October 2021)
D C Keeling	(Appointed 10 November 2021)
K J Dangerfield	(Resigned 12 November 2021)
T O Mackay	(Appointed 15 November 2021)

Company secretary

N Hoosen	(Resigned 31 May 2021)
J E Cox	(Appointed 1 October 2021)

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 Automobile Association Developments Limited 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 UK-adopted international accounting standards.

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 UK-adopted international accounting standards 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 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 also 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 2022 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 54 to 56 of AA Limited's Annual Report and Accounts 2022.

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 2022.

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 £124m (2021: £139m) and the directors do not propose the payment of a final dividend (2021: £nil).

INDEPENDENT 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 financial risks are described in the "Principal activity, review of the business and future developments" and "Risk management framework" sections on pages 1 to 9.

The Company has adequate financial resources due to the Company's own net current asset position. Automobile Association Developments Limited is a wholly owned subsidiary of the AA Limited group, hence the going concern status of the Company is linked to the wider AA Limited group. As a result, the Company directors have reviewed projected cash flows of the AA Limited group for a period of at least one year from the date of signing of these financial statements and have concluded, with the AA Limited Directors, that the Company has sufficient funds to continue trading during this period and the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

In July 2021, the AA Limited group completed a highly successful refinancing of its outstanding A5 notes, issuing £270,000k of A9 notes at a coupon of 3.25% with a 7x oversubscribed order book. The AA Limited group will continue to seek to refinance its maturities within good time of their scheduled maturities, including the refinancing of £250,000k of A6 notes which are due to mature on 31 July 2023. It is expected that market conditions in the coming months will be more challenging than in the past with significant macroeconomic concerns around interest rates and inflation as well as substantial geopolitical risk. However, despite these concerns, the AA Limited group still expects to be able to access markets at a suitable time and refinance its debt at affordable prices.

The Company directors have confirmed with the AA Limited group Directors these points along with the projected cash flows, for a period of at least 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 during 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 71 of the AA Limited group's Annual Report. 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. However, as noted above, the refinancing of the Class A6 Notes, due on 31 July 2023, is not committed at the date of issue of these financial statements. In the event the refinancing is not successful, the Company would not be able to continue as a going concern. 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



T O MACKAY
DIRECTOR
13 June 2022

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 2022 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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 2022; 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, as applicable to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

We have provided no non-audit services to the Company in the period under audit.

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 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 A6 Notes, due on 31 July 2023, is not committed at the date of issue of these financial statements. These conditions, along with the other matters explained in note 1 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 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 2022 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 the companies Act 2006 and tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. 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.
- 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.



Nicholas Smith (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Southampton

14 June 2022

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 JANUARY

	Note	2022 £m	2021 £m
Revenue	2	616	586
Cost of sales		(318)	(305)
GROSS PROFIT		298	281
Administrative and marketing expenses		(313)	(265)
Impairment of property, plant and equipment	14	(3)	-
OPERATING (LOSS)/PROFIT	4	(18)	16
Income from shares in group undertakings	7	-	49
Finance income	8	28	31
Finance costs	9	(4)	(3)
PROFIT BEFORE TAX		6	93
Income tax credit/(expense)	10	2	(6)
PROFIT FOR THE FINANCIAL YEAR		8	87

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

	2022	2021
	£m	£m
PROFIT FOR THE YEAR	8	87
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	2	-
Tax effect	(1)	-
	<u>1</u>	<u>-</u>
OTHER COMPREHENSIVE INCOME/(EXPENSE) ON ITEMS THAT WILL NOT BE RECLASSIFIED TO THE INCOME STATEMENT IN SUBSEQUENT YEARS		
Remeasurement gains/(losses) on defined benefit pension schemes (see note 21)	316	(53)
Current tax on remeasurements of pension liability	-	4
Deferred tax on remeasurements of pension liability	(79)	6
	<u>237</u>	<u>(43)</u>
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	<u>238</u>	<u>(43)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>246</u>	<u>44</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	2022 £m	2021 £m
NON-CURRENT ASSETS			
Deferred tax assets	11	-	4
Investments in subsidiaries	12	502	502
Investments in joint ventures and associates	12	1	1
Intangible assets	13	40	36
Property, plant and equipment	14	30	35
Right-of-use assets	15	49	52
Defined benefit pension scheme asset	21	132	-
Trade and other receivables	17	2	3
Derivative financial instruments	32	1	-
		757	633
CURRENT ASSETS			
Inventories	16	4	4
Trade and other receivables	17	1,585	1,388
Current tax receivable		14	5
Cash and cash equivalents	35	46	101
		1,649	1,498
Assets classified as held for sale	31	5	-
TOTAL ASSETS		2,411	2,131
CURRENT LIABILITIES			
Trade and other payables	18	(847)	(582)
Provisions	19	(4)	(5)
Lease liabilities	20	(16)	(18)
		(867)	(605)
NON-CURRENT LIABILITIES			
Lease liabilities	20	(32)	(34)
Defined benefit pension scheme liabilities	21	-	(179)
Deferred income		-	(1)
Deferred tax liabilities	11	(71)	-
Provisions	19	(10)	(7)
Derivative financial instruments	32	-	(1)
		(113)	(222)
TOTAL LIABILITIES		(980)	(827)
NET ASSETS		1,431	1,304
EQUITY			
Share capital	34	-	-
Cash flow hedge reserve		-	(1)
Retained earnings		1,431	1,305
TOTAL EQUITY		1,431	1,304

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



T O Mackay
DIRECTOR
13 June 2022

Registered number: 01878835

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

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 2020	-	(1)	1,396	1,395
Profit for the year	-	-	87	87
Other comprehensive expense	-	-	(43)	(43)
Total comprehensive income	-	-	44	44
Dividends	-	-	(139)	(139)
Equity-settled share-based payments (see note 25)	-	-	4	4
At 31 January 2021	-	(1)	1,305	1,304
Profit for the year	-	-	8	8
Other comprehensive income	-	1	237	238
Total comprehensive income	-	1	245	246
Dividends	-	-	(124)	(124)
Equity-settled share-based payments (see note 25)	-	-	5	5
At 31 January 2022	-	-	1,431	1,431

The dividend paid per share is £1,240 (2021: £1,389).

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	2022 £m	2021 £m
Profit before tax		6	93
Amortisation, depreciation, and impairment	13,14,15	49	44
Net finance income	8,9	(24)	(28)
Other adjustments to profit before tax		39	(45)
Difference between pension charge and cash contributions		(22)	(20)
Working capital and provisions:			
Decrease in trade and other receivables		64	7
Decrease in stock		-	1
Decrease / increase in trade and other payables		(10)	112
Increase in provisions		2	3
Total working capital and provisions adjustments		56	123
Net cash flows generated from/ operating activities before tax		104	167
Tax paid		(10)	(2)
Net cash flows generated from operating activities		94	165
Investing activities			
Capital expenditure		(28)	(20)
Income from shares in group undertakings		-	48
Proceeds from sale of fixed assets		2	1
Investments in joint ventures	12	(1)	(1)
Proceeds from sale of subsidiary, net of cash sold		-	2
Interest received		29	29
Net cash flows from investing activities		2	59
Financing activities			
Lease capital repayments		(25)	(27)
Payment of lease interest		(2)	(3)
Dividends paid		(124)	(139)
Net cash flows used in financing activities		(151)	(169)
Net (decrease)/increase in cash and cash equivalents		(55)	55
Cash and cash equivalents at 1 February		101	46
Cash and cash equivalents at 31 January	35	46	101

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 £1,000,000

1.2 Basis of preparation

The Group has prepared these statements in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

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's business activities, future developments and its exposure to financial risks are described in the "Principal activity, review of the business and future developments" and "Risk management framework" sections on pages 1 to 9.

The Company has adequate financial resources due to the Company's own net current asset position. Automobile Association Developments Limited is a wholly owned subsidiary of the AA Limited group, hence the going concern status of the Company is linked to the wider AA Limited group. As a result, the Company directors have reviewed projected cash flows of the AA Limited group for a period of at least one year from the date of signing of these financial statements and have concluded, with the AA Limited Directors, that the Company has sufficient funds to continue trading during this period and the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

In July 2021, the AA Limited group completed a highly successful refinancing of its outstanding A5 notes, issuing £270,000k of A9 notes at a coupon of 3.25% with a 7x oversubscribed order book. The AA Limited group will continue to seek to refinance its maturities within good time of their scheduled maturities, including the refinancing of £250,000k of A6 notes which are due to mature on 31 July 2023. It is expected that market conditions in the coming months will be more challenging than in the past with significant macroeconomic concerns around interest rates and inflation as well as substantial geopolitical risk. However, despite these concerns, the AA Limited group still expects to be able to access markets at a suitable time and refinance its debt at affordable prices.

The Company directors have confirmed with the AA Limited group Directors these points along with the projected cash flows, for a period of at least 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 during 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 71 of the AA Limited group's Annual Report. 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. However, as noted above, the refinancing of the Class A6 Notes, due on 31 July 2023, is not committed at the date of issue of these financial statements. In the event the refinancing is not successful, the Company would not be able to continue as a going concern. Further to this, the Company has intercompany receivables

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1.2 Basis of preparation (continued)

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:

Intangibles

The Group has significant software development programmes and there is judgement in relation to which programmes and costs to capitalise under IAS 38. Additionally, there is an estimate in respect of the future usage period of software on which the Group bases the useful economic life of related assets. A reduction in the useful economic life of Software would result in an increase in the amortisation charge between 20% to 30% based on the new useful life (see note 13).

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 (see note 21 for sensitivity analysis).

In the current year, the AAUK defined benefit pension scheme is in a surplus position. There is judgement around the recognition of a surplus which has been considered by management. The defined benefit pension scheme surplus has been recognised as the Group has an unconditional right to a refund of the surplus assuming the gradual settlement of AAUK scheme liabilities over time until all members have left the scheme.

The following are other principal estimates and assumptions made by the Group, but which management believes do not have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Share-based payments

The Company has issued 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.

Trade and intercompany receivables

The Company applies the IFRS 9 simplified approach to measuring expected credit losses (ECLs) which uses a lifetime expected loss allowance to trade receivables.

The assessment of credit loss allowances for intercompany receivables requires judgement to assess the collectability of intercompany balances. There is also estimation uncertainty in respect to the expected credit loss rates applied to such balances, which may differ to the actual outcome.

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.

Software-as-a-Service arrangements are service contracts providing the Company with the right to access the cloud provider's application software over the contract period. Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses. Some of the costs incurred relate to the development of software code that enhances or modifies, or creates additional capability to existing systems and meets the definition of, and the recognition criteria for, an intangible asset. These costs are recognised as intangible software assets and amortised over the useful life of the software on a straight-line basis.

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

Property, plant and equipment shall be classified as held-for-sale if its carrying amount will be recovered through a sale transaction rather than through continuing use. Assets meeting the criteria of held-for-sale are transferred to held-for-sale at the lower of carrying value or fair value less costs to sell at the point at which the criteria are met.

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 cost, being the initial lease liability plus any direct initial costs and an estimate of end of life costs, 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. Useful economic lives of leased assets are reviewed for appropriateness on a continuous basis including in relation to climate change impacts such as electric vehicles.

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.

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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1.3 Accounting policies (continued)

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 the 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.

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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1.3 Accounting policies (continued)

n) Financial instruments (continued)

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.

o) Share-based payments

The Company operated a number of equity-settled, share-based payment compensation plans for employees on behalf of AA Limited, which vested in the year (see note 25). A new equity settled scheme was also entered into the year on behalf of the Company's indirect parent, Basing TopCo 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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 SEGMENTAL INFORMATION AND REVENUE DISAGGREGATION

All Company activities relate to one segment in the AA group, 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:

	2022 £m	2021 £m
Roadside:		
Consumer (B2C)		
Insured contracts	336	311
Pay for use contracts ¹	47	48
Business Services (B2B)		
Insured contracts	31	32
Pay for use contracts ¹	178	177
Roadside other	24	18
Total Roadside	616	586

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, impairment of property, plant and equipment, share-based payments, pension service charge adjustments, pension past service cost, 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 (loss)/profit

Trading EBITDA is calculated as operating (loss)/profit before adjustments as shown in the table below:

		for the year ended 31 January	
	Note	2022 £m	2021 £m
Trading EBITDA		87	69
Share-based payments	25	(5)	(4)
Pension service charge adjustment		(4)	(4)
Amortisation and depreciation	13,14,15	(46)	(44)
Pension past service cost	21	(26)	-
Impairment of property, plant and equipment	14	(3)	-
Adjusting operating items	5	(21)	(1)
Operating (loss)/profit	4	(18)	16

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 (loss)/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 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 (LOSS)/PROFIT

Operating (loss)/profit is stated after charging:

	2022	2021
	£m	£m
Amortisation of owned intangible assets (see note 13)	12	9
Depreciation of		
- Owned tangible fixed assets (see note 14)	10	8
- Right-of-use assets (see note 15)	24	26
Brand royalty payment (see note 22)	75	74
Corporate recharge	76	72

Auditors' remuneration in respect of the audit of the Company's financial statements for the year ended 31 January 2022 amounted to £371,000 (2021: £289,000). 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

	2022	2021
	£m	£m
Adjusting operating items	(21)	(1)
	(21)	(1)

Adjusting operating items in the year ended 31 January 2022 comprised £8m recharges of group adjusting operating costs, £10m intercompany loan waiver, £3m relating to the closure of the CARE pension scheme, £1m impairment of investment in joint ventures (see note 12), £1m of strategic review costs and a £2m gain on the disposal of non-current assets.

Adjusting operating items in the year ended 31 January 2021 comprised £4m recharges of group adjusting operating costs, £1m impairment of investment in joint ventures (see note 12) offset by £3m Government furlough support in respect of COVID-19 and a £1m gain on disposal of non-current assets.

6 EMPLOYEE COSTS

Employee costs during the year were as follows:

	2022	2021
	£m	£m
Wages and salaries	153	149
Social security costs	16	16
Other pension costs	22	22
Share-based payments	5	4
	196	191

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:

	2022	2021
Operational	5,524	5,835
Management and administration	1,263	1,108
	6,787	6,943

7 INCOME FROM SHARES IN GROUP UNDERTAKINGS

	2022 £m	2021 £m
Dividends from subsidiary undertakings	-	49
	-	49
	-	49

8 FINANCE INCOME

	2022 £m	2021 £m
Finance income in respect of ABF scheme (see note 22)	11	10
Return on investment in AA Pension Funding LP (see note 22)	17	18
Net finance income on defined benefit pension schemes	-	3
	28	31
	28	31

9 FINANCE COSTS

	2022 £m	2021 £m
Finance charges payable on lease liabilities	2	3
Net finance expense on defined benefit pension schemes	2	-
	4	3
	4	3

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

10 INCOME TAX (CREDIT)/EXPENSE

The income tax expense is made up as follows:

	2022	2021
	£m	£m
Current tax:		
- UK Corporation Tax at 19.0% (2021: 19.0%)	2	6
- Group relief payable	-	2
- Adjustments in respect of prior periods	-	-
Total current tax charge	2	8
Deferred tax:		
- Origination and reversal of temporary differences	(2)	(2)
- Adjustments in respect of prior periods	-	-
- Effect of UK corporate tax rate changes	(2)	-
Total deferred tax credit	(4)	(2)
Total income tax (credit)/charge on ordinary activities	(2)	6

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

	2022	2021
	£m	£m
Profit before tax	6	93
Tax at rate of 19.0% (2021: 19.0%)	1	18
Effects of:		
- Adjustments in respect of prior periods	-	(1)
- Expenses not deductible for tax purposes	-	2
- Non-taxable dividend income	-	(9)
- Effect of UK corporation tax rate change	(2)	-
- Non-taxable release of related party debt	2	-
- Use of group losses	(3)	(4)
Income tax (credit)/expense reported in the income statement	(2)	6

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	
	2022 £m	2021 £m	2022 £m	2021 £m
Decelerated capital allowances	7	5	(2)	(1)
Other short-term temporary differences	3	2	(1)	(1)
Pensions	(79)	(2)	(2)	-
Capital gains rolled over	(2)	(1)	1	-
Deferred tax (liabilities)/assets	<u>(71)</u>	<u>4</u>	<u>(4)</u>	<u>(2)</u>
			£m	£m
Deferred tax (liabilities)/assets as at 1 February			4	(4)
Credit to the income statement			4	2
(Charge)/credit recognised in other comprehensive income			(79)	6
Deferred tax (liabilities)/assets as at 31 January			<u>(71)</u>	<u>4</u>

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

The March 2021 budget announced that the main corporation tax rate will increase from 19% to 25% in April 2023. This increase was substantively enacted in May 2021 and has therefore been reflected in the measurement of deferred tax as at 31 January 2022. The effect of the tax rate increase has been a deferred tax credit of £2m during the year.

Deferred tax balances have been measured according to the substantively enacted rates applicable to the periods in which they are scheduled to reverse.

The effective tax rate differs from the standard rate of corporation tax. This rate is as a result of the benefit of the rate change differences and the utilisation of group losses being reduced by the non-deductible release of a related party debt.

A deferred tax asset of £0.4m (2021: £0.3m) has not been recognised on historic capital losses.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

12 INVESTMENTS IN GROUP UNDERTAKINGS

	Shares in subsidiary undertakings £m	Shares in joint ventures and associated undertakings £m
Cost		
At 1 February 2020	556	2
Additions	-	1
At 31 January 2021	556	3
Additions	-	1
At 31 January 2022	556	4
Accumulated impairment		
At 1 February 2020	54	1
Impairment charge	-	1
At 31 January 2021	54	2
Impairment charge	-	1
At 31 January 2022	54	3
Net book value		
At 31 January 2022	502	1
At 31 January 2021	502	1

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 2020	8	57	65
Additions	-	11	11
Reclassifications	-	-	-
Disposals	-	(8)	(8)
At 31 January 2021	8	60	68
Additions	-	15	15
Disposals	-	(3)	(3)
At 31 January 2022	8	72	80
Accumulated amortisation and impairment			
At 1 February 2020	8	22	30
Amortisation	-	9	9
Disposals	-	(7)	(7)
At 31 January 2021	8	24	32
Amortisation	-	12	12
Disposals	-	(4)	(4)
At 31 January 2022	8	32	40
Net book value			
At 31 January 2022	-	40	40
At 31 January 2021	-	36	36

Within software, £8m (2021: £6m) relates to assets under construction which are not amortised.

Software additions comprise £5m (2021: £3m) in relation to internally developed assets and £10m (2021: £8m) 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 2020	9	11	4	60	84
Additions	-	-	-	9	9
Disposals	-	-	(4)	(8)	(12)
At 31 January 2021	9	11	-	61	81
Additions	-	-	-	13	13
Disposals	-	-	-	(6)	(6)
Transferred to Held for Sale	(9)	-	-	(4)	(13)
At 31 January 2022	-	11	-	64	75
Accumulated depreciation					
At 1 February 2020	4	10	4	32	50
Charge for year	-	-	-	8	8
Disposals	-	-	(4)	(8)	(12)
At 31 January 2021	4	10	-	32	46
Charge for year	-	-	-	10	10
Disposals	-	-	-	(6)	(6)
Impairment	-	1	-	2	3
Transferred to Held for Sale	(4)	-	-	(4)	(8)
At 31 January 2022	-	11	-	34	45
Net book value					
At 31 January 2022	-	-	-	30	30
At 31 January 2021	5	1	-	29	35

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 2020	23	80	103
Additions	-	14	14
Disposals	(2)	(19)	(21)
At 31 January 2021	21	75	96
Additions	6	16	22
Disposals	-	(23)	(23)
At 31 January 2022	27	68	95
Accumulated depreciation			
At 1 February 2020	3	35	38
Charge for the year	2	24	26
Disposals	(2)	(18)	(20)
At 31 January 2021	3	41	44
Charge for the year	2	22	24
Disposals	-	(22)	(22)
At 31 January 2022	5	41	46
Net book value			
At 31 January 2022	22	27	49
At 31 January 2021	18	34	52

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

16 INVENTORIES

	2022	2021
	£m	£m
Finished goods and goods for resale	<u>4</u>	<u>4</u>

17 TRADE AND OTHER RECEIVABLES

	2022	2021
	£m	£m
Current		
Trade receivables	36	39
Amounts owed by group undertakings	1,520	1,318
Other receivables	3	6
Contract assets	14	13
Prepayments	12	11
Lease receivables	-	1
	<u>1,585</u>	<u>1,388</u>
Non-current		
Lease receivables	<u>2</u>	<u>3</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

	2022	2021
	£m	£m
Trade payables	21	15
Amounts owed to group undertakings	606	333
Accruals	26	40
Deferred income	166	167
Other taxes and social security costs	21	20
Other payables	7	7
	<u>847</u>	<u>582</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 2020	3	6	-	9
Utilised during the year	-	(5)	-	(5)
Released during the year	-	-	-	-
Charge for the year	1	6	1	8
At 31 January 2021	4	7	1	12
Utilised during the year	-	(4)	(1)	(5)
Released during the year	-	(1)	-	(1)
Charge for the year	-	6	2	8
At 31 January 2022	4	8	2	14
Current	-	3	1	4
Non-current	4	5	1	10
At 31 January 2022	4	8	2	14
Current	1	3	1	5
Non-current	3	4	-	7
At 31 January 2021	4	7	1	12

The property leases provision primarily relates to dilapidations. These sums are mainly expected to be paid out over the next 9 years; however, it will take 34 years to fully pay out all amounts provided for. The provision has been calculated at a risk-free rate.

Other provisions include a £2m provision (2021: £nil) in relation to a warranty for vehicle part replacements. Self-funded insurance liabilities total £8m (2021: £7m), where the Company provides for the cost of certain claims made against it, for example motor vehicle accident damage and employer liability claims. These sums are mainly expected to be paid out over the next 5 years; however, it can take up to 30 years for employer liability claims to fully pay out in full.

In the prior year other provisions included £1m for anticipated redress costs. The Company identified that there had been limited instances whereby consumer renewal pricing needed to realign with regulatory requirements. The Company has subsequently released the provision for costs of redress to affected customers.

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:

	2022		2021	
	Present value of payments £m	Minimum payments £m	Present value of payments £m	Minimum payments £m
Within one year	16	18	18	20
Between one and five years	17	22	21	24
After five years	15	24	13	21
Total minimum lease payments	48	64	52	65
Less amounts representing finance charge	-	(16)	-	(13)
Present value of minimum lease payments	48	48	52	52

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 £4m (2021: £1m).

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 2022, the principal outstanding on the AA Intermediate Co Limited group debt was £2,325m (2021: £2,767m).

The covenants governing the bank loans and bond debt of the AA Intermediate Co Limited group place restrictions on the AA Limited 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 on 31 March 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 is not open to new entrants.

The AAUK scheme is governed by a corporate trustee whose board is currently composed of member-nominated and Company-nominated directors. The Company-nominated directors include an independent director whom the trustee board directors have nominated as Chairman. The trustee of each scheme is responsible for paying members' benefits and for investing scheme assets, which are legally separate from the Company.

The AAUK is subject to full actuarial valuations every three years using assumptions agreed between the trustee of each 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 from 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 the 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 IAS 19, 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 2022 by independent qualified actuaries.

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

	As at 31 January 2022		
	AAUK £m	AAPMP £m	Total £m
Present value of the defined benefit obligation in respect of pension plans	(2,453)	(32)	(2,485)
Fair value of plan assets	2,617	-	2,617
Surplus/(deficit)	164	(32)	132

	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)	(46)	(2,759)
Fair value of plan assets	2,580	-	2,580
Deficit	(133)	(46)	(179)

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21 PENSIONS (continued)

The overall deficit of £179m as at 31 January 2021 has moved to a surplus of £132m as at 31 January 2022, which represents a change of £311m over the year. This is largely the result of an increase in corporate bond yields over the period, which drive the discount rate, and an increase in assets due to higher-than-expected asset returns, partially offset by an increase in future inflation expectations. It also incorporates a £13m gain resulting from the incorporation of the inter-valuation experience for the AAPMP, as well as the impact of Barber equalisation for the UK Scheme which has been recognised as a one-off past service cost.

The Company recognised a one-off past service cost of £26m as a result of a legal review of the method of 'Barber' equalisation implemented for the AAUK scheme.

Leading counsel was engaged jointly by the Company and AAUK scheme trustee to provide a legal opinion in respect of the method of equalisation used to date. Following receipt of that opinion on 26 November 2021 the Company and the AAUK scheme trustee agreed to administer the AAUK scheme as per the opinion, crystallising the recognition of the one-off past service cost. These facts and circumstances were not present at the previous year end and so no liability was recognised in the prior year.

In November 2013, the Group implemented an asset-backed funding scheme which remains in place. The asset-backed funding scheme provides a long-term deficit reduction plan where the Group 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 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 was 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 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.

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. Closure of the scheme has curtailed the ongoing build-up of defined benefit risk for the Company.

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.

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 gained much clearer visibility over short-term pension costs lasting at least to the end of FY23 (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 and other events on the global financial markets has meant higher fluctuation of the funding level in the AAUK scheme, albeit mitigated by the de-risked investment strategy and high levels of hedging. Therefore, there is a risk that the contributions required from the Company could increase following the 2022 triennial valuation.

Using an inflation assumption of 3.6% and a discount rate assumption of 2.3%, the present value of the future deficit reduction contributions has been calculated. These contributions remain due until such a time as another recovery plan is put in place, despite the IAS19 surplus position shown as at 31 January 2022. The Company notes that 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 £26m in deficit reduction employer contributions to its defined benefit plans in the year ending 31 January 2022.

In January 2022, the Company completed a full accounting valuation of the AAPMP with a valuation date of 31 January 2021. This updated the previous full accounting valuation of the AAPMP that was performed as at 31 January 2017 and was projected forward to relevant reporting dates.

The 31 January 2021 full accounting valuation of the AAPMP revealed a reduction in reported deficit as a result of the actual level of medical premium inflation experienced being lower than that assumed over the period between full valuations and the impact of the latest longevity expectations.

The Company recognised a charge in the income statement of £17m in respect of defined contribution pension scheme costs in the year (2021: £16m).

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21 PENSIONS (continued)

Total Company Schemes

	Assets £m	Liabilities £m	Income statement £m	Other comprehensive income £m
Balance at 1 February 2020	2,472	(2,620)	-	-
Current service cost	-	(4)	(4)	-
Past service cost	-	(1)	(1)	-
Administrative expenses	(4)	-	(4)	-
Interest on defined benefit scheme assets/(liabilities)	51	(49)	2	-
Amounts recognised in the income statement	47	(54)	(7)	-
Effect of changes in financial assumptions	-	(168)	-	(168)
Effect of changes in demographic assumptions	-	(8)	-	(8)
Effect of experience adjustment	-	13	-	13
Return on plan assets excluding interest income	110	-	-	110
Amounts recognised in the statement of comprehensive income	110	(163)	-	(53)
Benefits paid from scheme assets	(78)	78	-	-
Ongoing employer contributions	5	-	-	-
Deficit reduction employer contributions	24	-	-	-
Movements through cash	(49)	78	-	-
Balance at 31 January 2021	2,580	(2,759)	-	-
Past service cost	-	(26)	(26)	-
Administrative expenses	(4)	-	(4)	-
Interest on defined benefit scheme assets/(liabilities)	40	(42)	(2)	-
Amounts recognised in the income statement	36	(68)	(32)	-
Effect of changes in financial assumptions	-	207	-	207
Effect of changes in demographic assumptions	-	11	-	11
Effect of experience adjustment	-	47	-	47
Return on plan assets excluding interest income	51	-	-	51
Amounts recognised in the statement of comprehensive income	51	265	-	316
Benefits paid from scheme assets	(77)	77	-	-
Ongoing employer contributions	1	-	-	-
Deficit reduction employer contributions	26	-	-	-
Movements through cash	(50)	77	-	-
Balance at 31 January 2022	2,617	(2,485)	-	-

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21 PENSIONS (continued)

AAUK scheme

	Assets £m	Liabilities £m	Income statement £m	Other comprehensive income £m
Balance at 1 February 2020	2,472	(2,576)	-	-
Current service cost	-	(4)	(4)	-
Past service cost	-	(1)	(1)	-
Administrative expenses	(4)	-	(4)	-
Interest on defined benefit scheme assets/(liabilities)	51	(48)	3	-
Amounts recognised in the income statement	47	(53)	(6)	-
Effect of changes in financial assumptions	-	(166)	-	(166)
Effect of changes in demographic assumptions	-	(8)	-	(8)
Effect of experience adjustment	-	13	-	13
Return on plan assets excluding interest income	110	-	-	110
Amounts recognised in the statement of comprehensive income	110	(161)	-	(51)
Benefits paid from scheme assets	(77)	77	-	-
Ongoing employer contributions	4	-	-	-
Deficit reduction employer contributions	24	-	-	-
Movements through cash	(49)	77	-	-
Balance at 31 January 2021	2,580	(2,713)	-	-
Past service cost	-	(26)	(26)	-
Administrative expenses	(4)	-	(4)	-
Interest on defined benefit scheme assets/(liabilities)	40	(41)	(1)	-
Amounts recognised in the income statement	36	(67)	(31)	-
Effect of changes in financial assumptions	-	206	-	206
Effect of changes in demographic assumptions	-	11	-	11
Effect of experience adjustment	-	34	-	34
Return on plan assets excluding interest income	51	-	-	51
Amounts recognised in the statement of comprehensive income	51	251	-	302
Benefits paid from scheme assets	(76)	76	-	-
Deficit reduction employer contributions	26	-	-	-
Movements through cash	(50)	76	-	-
Balance at 31 January 2022	2,617	(2,453)	-	-

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21 PENSIONS (continued)

AA PMP scheme

	Assets £m	Liabilities £m	Income statement £m	Other comprehensive income £m
Balance at 1 February 2020	-	(44)	-	-
Interest on defined benefit scheme assets/(liabilities)	-	(1)	(1)	-
Amounts recognised in the income statement	-	(1)	(1)	-
Effect of changes in financial assumptions	-	(2)	-	(2)
Amounts recognised in the statement of comprehensive income	-	(2)	-	(2)
Benefits paid from scheme assets	(1)	1	-	-
Ongoing employer contributions	1	-	-	-
Movements through cash	-	1	-	-
Balance at 31 January 2021	-	(46)	-	-
Interest on defined benefit scheme assets/(liabilities)	-	(1)	(1)	-
Amounts recognised in the income statement	-	(1)	(1)	-
Effect of changes in financial assumptions	-	1	-	1
Effect of experience adjustment	-	13	-	13
Amounts recognised in the statement of comprehensive income	-	14	-	14
Benefits paid from scheme assets	(1)	1	-	-
Ongoing employer contributions	1	-	-	-
Movements through cash	-	1	-	-
Balance at 31 January 2022	-	(32)	-	-

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21 PENSIONS (continued)

Fair value of plan assets

The tables below show the AAUK scheme asset split between those that have a quoted market price and those that are unquoted.

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

	2022		2021	
	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	-	439	-	360
Bonds/gilts	322	667	439	562
Property	15	300	31	239
Hedge funds	-	194	29	287
Private equity	-	110	-	69
Cash/net current assets	19	66	26	12
Annuity policies	-	485	-	526
Total AAUK scheme assets	356	2,261	525	2,055
Actual return on AAUK plan assets		91		161

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 £2,261m assets without a quoted market price at 31 January 2022, £485m 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 £29m of unquoted assets allocated to private equity and £13m of unquoted assets allocated to property have been measured at amortised cost rather than fair value.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21 PENSIONS (continued)

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.

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 AAUK 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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21 PENSIONS (continued)

Pension plan assumptions

The principal actuarial assumptions were as follows:

	AAUK		AAPMP	
	2022 %	2021 %	2022 %	2021 %
Pensioner discount rate	2.3	1.5	2.3	1.5
Non-pensioner discount rate	2.3	1.6	2.3	1.5
Pensioner RPI	3.6	3.0	3.6	3.0
Non-pensioner RPI	3.3	2.8	3.6	3.0
Pensioner CPI	3.0	2.2	3.0	2.2
Non-pensioner CPI	2.7	2.3	3.0	2.2
Rate of increase of pensions in payment (final salary sections) – pensioner	3.5	2.9	-	-
Rate of increase of pensions in payment (final salary sections) – non-pensioner	3.2	2.8	-	-
Rate of increase of pensions in payment (CARE section) – pensioner	2.2	1.8	-	-
Rate of increase of pensions in payment (CARE section) – non-pensioner	2.0	1.9	-	-
Pension increase for deferred benefits	2.7	2.3	-	-
Medical premium inflation rate	-	-	7.6	7.0

Mortality assumptions are set using standard tables based on scheme-specific experience where available and an allowance for future improvements. For 2022, the assumptions used were in line with the SAPS (S3) series mortality tables with scheme-specific adjustments (2021 – SAPS (S3) series with scheme-specific adjustments) with future improvements in line with the CMI_2020 model with a 1.25% long-term rate of improvement and a 2020 experience weighting of 10% (2021 – CMI_2019 model with a 1.25% long-term rate of improvement).

The AA schemes' overall assumptions are that an active male retiring in normal health currently aged 60 will live on average for a further 25 years (2021: 25 years) and an active female retiring in normal health currently aged 60 will live on average for a further 28 years (2021: 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 ended 31 January 2022

	AAUK £m	AAPMP £m
Increase of 0.25% in discount rate	117	1
Increase of 0.25% in RPI and CPI	(91)	-
Increase of 0.25% in CPI only	(37)	-
Increase of 1% in medical claims inflation	-	(4)
Increase of one year of life expectancy	(95)	-

An equivalent decrease in the assumptions at 31 January 2022 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 2022 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 of each scheme through regular reviews of the investment portfolios. In addition, under guidance from their investment advisers, the trustees of each scheme 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)

Pension scheme risks (continued)

Financial derivatives risk – The AAUK 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 2022, the scheme had hedged around 80% 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 policies

The AAUK scheme holds two bulk annuity policies with a total fair value of £485m as at 31 January 2022. 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, is important 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 £434m and a loan note receivable of £566m. 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 £75m (2021: £74m) 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 £368m (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 £17m (2021: £18m). Monthly repayments of the partnership contribution are made by the Scottish Limited Partnership which amounted to £18m (2021: £17m) in the year. The balance of the partnership contribution as at 31 January 2022 was £384m (2021: £384m) and is repayable over 25 years up to 2038.

In addition, the Company also made an initial pension contribution of £198m 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 £11m in the year (2021: £10m). 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 £15m (2021: £15m). The balance of the pension contribution as at 31 January 2022 was a receivable of £174m (2021: receivable £177m) and is repayable over 25 years up to 2038.

At 31 January 2022, the Company also had an intercompany payable balance due to the Scottish Limited Partnership of £4m (2021: intercompany payable of £3m) bringing the aggregate amount receivable to £554m (2021: £559m).

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:

	2022 £m
Share capital	-
Retained earnings	1,431
Total capital	1,431

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

	2022 £m	2021 £m
Financial assets at fair value through other comprehensive income		
Derivative financial instruments (see note 32)	1	-
Financial assets at amortised cost		
Cash and cash equivalents (see note 35)	46	101
Trade receivables (see note 17)	36	39
Contract assets and other receivables (see note 17)	17	19
Amounts owed by group undertakings (see note 17)	1,520	1,318
Total financial assets	1,620	1,477

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

24 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Financial liabilities

	2022 £m	2021 £m
Financial liabilities at fair value through other comprehensive income		
Derivative financial instruments (see note 32)	-	1
Financial liabilities at amortised cost		
Trade payables (note 18)	21	15
Other payables and accruals (see note 18)	33	47
Lease liabilities (see note 20)	48	52
Amounts owed to group undertakings (see note 18)	606	333
Total financial liabilities	708	448

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 2022. 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

	2022 £m	2021 £m
Equity-settled share-based payments:		
Share-based payments – Employee Share Incentive Plan	3	2
Share-based payments – Performance Share Plan	2	2
Total equity-settled share-based payments	5	4
Total share-based payments expense	5	4

Following the acquisition of AA Limited, both the ESIP and PSP schemes vested on 8 March 2021. Charges of £4m relating to the full vesting period of these schemes were accelerated and recognised in the year ending 31 January 2022.

Employee Share Incentive Plans

Prior to the acquisition of AA Limited, the Company 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 purchased AA Limited would match 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.

As at 31 January 2021, there were 11,567,837 outstanding matching shares relating to the FY19, FY20 and FY21 schemes. On 8 March 21, when the schemes vested, there were 11,796,212 outstanding matching shares. The underlying shares were subsequently purchased by Basing BidCo Limited at 35p per share as part of the acquisition.

Performance Share Plans (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.

The plans that were due to vest in financial year 2022 or later were the 2018 CEO/CFO and 2018 Award plan, and the 2019 CEO and 2019 award plan. The 2017 CEO and 2017 Award plans were due to vest in October 2020 but this was delayed until the acquisition of AA Limited in March 2021. As a result of the acquisition of AA Limited that took place on 9 March 2021, the PSP schemes vested on 8 March 2021 and the underlying shares were subsequently purchased by Basing BidCo Limited at 35p per share.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

25 SHARE-BASED PAYMENTS (continued)

	Award Date	2021 No. of shares outstanding	Lapsed	Vested	2022 No. of shares outstanding
2017 CEO Award	27 October 2017	1,148,606	(1,124,327)	(24,279)	-
2017 Award	11 December 2017	1,920,058	(1,877,557)	(42,501)	-
2018 CEO/CFO	7 November 2018	1,355,371	(1,355,371)	-	-
2018 Award	7/14 November 2018	3,542,026	(3,495,643)	(46,383)	-
2019 CEO	30 October 2019	2,200,000	(220,000)	(1,980,000)	-
2019 Award	30 October 2019	8,731,136	(872,745)	(7,858,391)	-
Total		18,897,197	(8,945,643)	(9,951,554)	-

Management Incentive Plan (MEP)

During the current financial year, Basing TopCo Limited (an indirect parent company of Basing BidCo Limited, the acquiring company of AA Limited) issued shares to senior management with vesting conditions linked to their continued employment. This plan has been accounted for as an equity settled share based payment, and where the participants directly benefit the Company, the share based payment charge has been accounted for within the Company financial statements.

At 31 January 2022, 30,089,992 shares had been issued under this plan with a fair value of 5.3p each.

The fair value of the shares were calculated using a Monte Carlo simulation model. Key inputs to the model were as follows:

- Equity value – Based on Basing TopCo Limited equity value of £601m
- Expected term – Vesting date of March 26 has been assumed
- Exercise price – Based on equity value of Basing TopCo Limited taking into account the ratchet mechanism inbuilt to the plan
- Volatility – 30% has been used following the review of a broad set of quoted comparators
- Risk free rate – 0.59% based on UK Government bond rates for 5 year period as at first grant date

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

26 RELATED PARTY TRANSACTIONS

Transactions with other subsidiaries in the Basing ConsortiumCo group:

The Company is the principal employer for the Basing ConsortiumCo 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 £105m (2021: £106m).

A share-based payments cost of £5m (2021: £4m) was incurred by the Company (see note 25) in relation to its employees.

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 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 £79m including £8m of adjusting operating costs (2021: £71m including £4m of adjusting operating costs).

The Company sweeps all 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 Basing ConsortiumCo Limited group companies are as follows:

Entity	Relationship	2022 £m	2021 £m
AA Corporation Limited	Parent	(522)	(284)
Automobile Association Insurance Services Limited	Fellow subsidiary	2	2
Accident Assistance Services Limited	Fellow subsidiary	(1)	1
AA Senior Co Limited	Indirect parent	455	367
AA Mid Co Limited	Indirect parent	20	20
AA Limited	Indirect parent	2	10
AA Bond Co Limited	Fellow subsidiary	484	359
AA Underwriting Insurance Company Limited	Fellow subsidiary	(32)	(33)
AA Pension Funding LP	Subsidiary	554	559
AA Brand Management Limited	Subsidiary	(51)	(16)
		911	985

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

26 RELATED PARTY TRANSACTIONS (continued)

Transactions with key management personnel:

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group. A loan amounting of £0.2m was made to a director of one of the group companies in the current year at an interest rate of 1.3% per annum from Automobile Association Developments Limited in relation to the Management Equity Plan.

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	2022 £m	2021 £m
ARC Europe SA	Registration fees paid	1	1
ARC Europe SA	Claims	1	1

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	2022 £m	2021 £m
Drvn Solutions Limited	Supply of goods	1	3

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)	England	Roadside services

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.

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:

	2022 £m	2021 £m
Short-term employee benefits	5	4
Compensation of loss of office	1	-
Share-based payments	1	1
Total compensation paid to key management personnel	7	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. The ultimate controlling party and parent undertaking is Basing Consortium Co Limited, whose registered office is 3rd Floor 44 Esplanade, St Helier, JE4 9WG, Jersey.

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 a material impact on the financial statements. A number of new accounting standards, amendments and interpretations have been issued and will be effective for years beginning after 1 February 2022, however the Company has not identified any with an expected material impact on the financial statements.

New accounting standards, amendments and interpretations not yet adopted

A number of new standards, amendments and interpretations have been issued and will be effective for financial years beginning after 1 February 2022 but have not been applied by the Company in these financial statements. These are set out below (effective dates are UK effective dates).

- A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16 (effective 1 January 2022)
- Amendments to IAS 1, 'Presentation of financial statements' on classification of liabilities (effective date to be confirmed)
- Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8 (effective date 1 January 2023)
- Amendment to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction (effective date 1 January 2023)
- IFRS 17, 'Insurance contracts' as amended in December 2021 (effective date 1 January 2023)

IFRS 17 replaces IFRS 4 Insurance contracts, providing consistent principles for all aspects of accounting for insurance contracts, impacting recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard.

The Company is currently undergoing an impact assessment with regard to IFRS 17, with implementation due for the year ending 31 January 2024. This is expected to have a material impact on the Company and comparative figures will be restated.

The Company did not identify any new accounting standards coming into effect in the financial year ending 31 January 2023 with an expected material impact on the financial statements.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 ASSETS CLASSIFIED AS HELD FOR SALE

During the year, the directors agreed the sale of two properties. Purchasers for both properties have been identified and legal terms are being negotiated. The sales are expected to complete within 10 months of the year end. The assets have been remeasured to the lower of carrying amount and fair value less cost to sell which has resulted in an impairment of £2m included within administrative expenses in the income statement.

The assets classified as held for sale were:

	2022 £m	2021 £m
Property, plant and equipment	5	-
Total	5	-

32 DERIVATIVE FINANCIAL INSTRUMENTS

	2022 £m	2021 £m
Assets		
Forward fuel contracts	1	(1)
	1	(1)

The forward fuel contracts asset is shown on a net basis as the asset is settled on a net basis. On a gross basis, the asset is £1m (2021: £nil) and the liability is nil (2021: £1m).

33 DIRECTORS' REMUNERATION

	2022 £m	2021 £m
Aggregate remuneration in respect of qualifying services	3	3
Share-based payments (see note 25)	1	-
Compensation for loss of office	1	-
	5	3

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

	2022 £m	2021 £m
Remuneration	0.6	1.2
Share-based payments (see note 25)	0.4	0.1
Compensation for loss of office	0.5	-
	1.5	1.3

All directors of the Company were also directors of the ultimate parent undertaking (Basing ConsortiumCo Limited) and/or fellow subsidiaries during the 2022 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 (2021: nil) directors under a defined benefit scheme and no (2021: 3) directors under a money purchase scheme. There was £1m compensation to directors for loss of office in the year (2021: £nil).

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

34 SHARE CAPITAL

Allotted, called up and fully paid	2022 £m	2021 £m
100,000 (2021: 100,000) ordinary shares of £1 each	<u>-</u>	<u>-</u>

In the year ended 31 January 2022, the Company paid a dividend of £124m (2021: £139m).

35 CASH AND CASH EQUIVALENTS

	2022 £m	2021 £m
Cash at bank and in hand	<u>46</u>	<u>101</u>

36 EVENTS AFTER THE REPORTING PERIOD

The Company made a dividend payment to AA Corporation Limited of £3.1m on 29 April 2022.