

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2023

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 2023.

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 performance despite a challenging macroeconomic environment, with revenue, Adjusted and Reported EBITDA, and several key KPIs showing improvement. For further details on non-financial KPIs, please refer to the AA Limited Annual Report and Accounts 2023.

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.

	2023	2022
Revenue (£m)	652	616
Adjusted EBITDA (£m)	112	106
Adjusted EBITDA margin (%)	17	17
Reported EBITDA (previously Trading EBITDA) (£m)	88	87
Reported EBITDA margin (previously Trading EBITDA margin) (%)	13	14
Paid personal members excluding free memberships (000s) ¹	3,252	3,177
Average income per paid personal member excluding free memberships (£) ^{1, 2}	190	185
Business customers (000s) ¹	10,618	8,842
Average income per Business customer (£) ¹	23	23
Number of breakdowns (‘000s) ¹	3,178	3,072

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 average income per member to include insurance motor members. As a result, the average income per member has been restated.

Our Roadside business delivered significant top line growth with revenue up 6% in the year to £652m, driven by the increase in new business volumes seen in both business-to-consumer (B2C) and business-to-business (B2B) and growth in our developing businesses such as Driving Schools.

Adjusted EBITDA increased by 6% to £112m driven by favourable trading performance in B2C and B2B partially offset by increased costs due to macroeconomic pressures and greater use of garaging. Adjusted EBITDA margin has remained stable reflecting the above. Reported EBITDA increased by £1m to £88m, while Reported EBITDA margin decreased by 1% to 13%, in line with increased costs discussed above.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

STRATEGIC REPORT (continued)

Reconciliation of Adjusted and Reported EBITDA to Operating Profit/(loss)

Adjusted EBITDA is profit after tax on a continuing basis as reported, adjusted for depreciation, amortisation of customer acquisition costs relating to third party commissions and fees, amortisation of other intangible assets, adjusting operating items, share-based payments, pension service charge adjustments, impairment of property, plant and equipment, impairment of intangible assets, net finance costs and tax expense.

Adjusted EBITDA has been presented as a new additional alternative performance measure in FY23 to enable a more consistent comparison of performance across the industry. A reconciliation to Operating Profit/(loss) as presented in the income statement is shown below.

Reported EBITDA (previously 'Trading EBITDA') is Adjusted EBITDA excluding the adjustment for amortisation of acquisition costs relating to third party commissions and fees.

	2023	2022
	£m	£m
Adjusted EBITDA	112	106
Amortisation of acquisition costs relating to third party commissions and fees	(24)	(19)
Reported EBITDA	88	87
Share-based payments	(2)	(5)
Pension service charge adjustment	(4)	(4)
Pension past service cost	-	(26)
Amortisation and depreciation	(53)	(46)
Impairment of property, plant and equipment	-	(3)
Adjusting operating items	(10)	(21)
Operating profit/(loss)	19	(18)

Accelerating growth in Roadside Business to Consumer and Business to Business

In our Roadside business, we delivered growth in both revenue and Adjusted EBITDA, with margins remaining strong. Paid membership holdings increased by 2.4% to 3.252m (2022: 3.177m) enabled by our transformed web journey delivering a 2% improvement in conversion rate. Our investment in core IT platforms and further enhanced customer value management enabled an improvement on our renewal rate to 84.4% (2022: 84.1%), under our new retention measure, despite cost-of-living pressures and supported by our market-leading service at the roadside. Under the old measure, retention rate was 80.3% (2022: 80.8%).

During the year we have revised the basis of average income per paid personal member to include motor insurance income from members. Under this new basis, average income per paid personal member has increased in the year by £5 to £190 (2022: £185) reflecting targeted pricing actions, strong brand stretch and early success of our cross-sell focus. Under the old basis, average income per paid personal member has increased by £7 to £176 (2022: £169).

In our B2B business we acquired two significant new breakdown assistance contracts from NatWest and Nationwide, increasing our business customer holdings to 10.6m (2022: 8.8m). Through these partnerships, customers will receive our award-winning roadside assistance services which they can access fully through digital channels, including the AA app. In addition, we successfully retained or extended all our major core roadside contracts which were due for renewal this year, including amongst others JLR, VWG, Ford, Suzuki, Lotus, Arval, Hertz, Zenith and Admiral. Average income per business customer remained stable at £23 (2022: £23) and overall income for B2B grew by 6.2% reflecting the significant increase in holdings, 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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

STRATEGIC REPORT (continued)

Strong performance in developing business

Driving Schools benefitted from pent up demand for driving lessons following the easing of Covid-19 restrictions. Our driving instructor base grew by 22% from 2,420 to 2,957, as we successfully increased awareness for our driving instructor programme resulting in a 40% increase in the number of instructors trained in FY23.

Other

The overall pension surplus of £132m as at 31 January 2022 has moved to a deficit of £175m as at 31 January 2023, which represents a change of £307m over the year, driven primarily by movements in the AAUK scheme position. Remeasurement of the defined benefit pension schemes drove a £250m loss (2022: £237m profit) in other comprehensive income.

Gilt yields increased significantly over FY23, with a high level of volatility seen during September and October in particular. The AAUK scheme invests part of its assets in a Liability Driven Investment ('LDI') mandate, held for risk management purposes. Specifically, this mandate has historically been designed to "hedge" the impact on the value of the AAUK scheme's liabilities from changes in gilt yields (and inflation), to help to protect the AAUK scheme's funding position. Gilt yield increases to mid-October led to a significant fall in the size of the liabilities, with a broadly corresponding fall in LDI assets.

Following the Bank of England intervention in October, gilt yields fell to lower levels. This led to an increase in the value of the AAUK scheme's liabilities – with a lower level of hedging, the asset value lagged behind. This had a meaningful impact in reducing the IAS 19 surplus from earlier in FY23. The IAS 19 position suffered further from (i) funding liabilities being larger than IAS 19 liabilities, plus contractions in AA-rated corporate bond yields relative to gilts, meaning that the fall in hedging assets (linked to the funding basis) were relatively larger than IAS 19 liability falls, (ii) worse than assumed performance of other asset classes and (iii) very high price inflation experienced relative to long-term expectations at the start of the year. In aggregate, these impacts meant that the AAUK scheme has moved into a statement of financial position deficit at 31 January 2023.

In February 2023, the actuarial triennial review for the AAUK pension scheme was completed as at 31 March 2022. This resulted in a significant reduction of the technical provisions deficit of around 60% from £131m as at 31 March 2019 to £53m. The Asset-Backed Funding mechanism, which provides a long-term deficit reduction plan and additional contribution schedule remain in place from the 2019 valuation. Under the asset-back funding scheme, the Company makes an annual deficit reduction contribution of £15m increasing annually with inflation until October 2038, or until the AAUK scheme funding deficit is removed if earlier, secured on the Company's brands. Under the additional contribution schedule (i.e. contributions in excess of the Asset-Backed Funding mechanism), the Company pays £12m per annum until July 2025. The trustee meets its own costs of running the AAUK scheme.

Profit before tax increased to £100m (2022: £6m) from higher income from shares from group undertakings (see Note 6) of £50m (2022: £nil) and improved trading.

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 2023 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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

STRATEGIC REPORT (continued)

DIRECTORS' DUTIES: S. 172 STATEMENT (continued)

The Company is part of the AA Limited group, the ultimate parent of which was Basing ConsortiumCo Limited during the 2023 financial year. Decisions, policies and procedures that may affect stakeholders were implemented at AA Limited group level during the year and the Board oversees the application of these to the Company. The Board recognises that the

Company's stakeholders include those that interact with the Company directly, in addition to those with indirect relationships in the context of the wider AA Limited and Basing ConsortiumCo Limited groups.

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 2023.

Summary of business relationships

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

Statement of employee engagement

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

RISK MANAGEMENT FRAMEWORK

Overall Responsibility

The Board of AA Limited 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. Further information about the corporate governance arrangements for the AA is set out in the Directors' Report on pages 46-51 of the AA Limited Annual Report and Accounts 2023.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

STRATEGIC REPORT (continued)

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.

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 AA Limited group 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.
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 Risks 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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

STRATEGIC REPORT (continued)

Principal Risks and Opportunities (continued)

Principal risk:	Description	Potential impact
Customer Risk	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.	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 We continually review and adapt our products and services to ensure we deliver good outcomes. We have also been closely monitoring the rising cost of living crisis and we run a financial difficulty forum to identify how we can support our customers. We are also preparing ourselves for our regulator's incoming cornerstone regulation, Consumer Duty. We have an extensive program of work in place to review our existing frameworks, structures and processes to proactively look for opportunities to improve and enhance the outcomes we deliver to our customers.	
Principal risk:	Description	Potential impact
People risk	The risk that we are unable to attract and retain the critical skills, knowledge and experience we need to deliver our services.	Covid-19, Brexit and changing workforce expectations in terms of location, flexibility and pay have all contributed to a shrinking workforce, with fewer people in the talent pool across the UK.
Risk trend: Increasing	Mitigation Our people play a critical role in the success of our business and in our future growth. We have made some significant enhancements to our Employee Value Proposition in FY23 and continue to ensure we adapt and respond to a changing environment.	
Principal risk:	Description	Potential impact
Cyber security	The risk of failure to detect fraudulent or unauthorised modification of IT resources, physical or virtual theft of assets and events that compromise critical data.	Cyber-attacks are an ever-increasing threat for businesses. This is a risk that has heightened as a result of the increase in state-sponsored cyber-attacks and the development of more sophisticated ransomware attacks.
Risk trend: Increasing	Mitigation We continue to operate our clearly defined cyber security strategy and we have invested in resources to further strengthen our controls. We benchmark our security controls against the Standard for Information Security (ISO27001) and an independent third party performs an annual review to provide assurance that our controls remain effective.	

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

STRATEGIC REPORT (continued)

Principal Risk and Opportunities (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. We regularly review all our HS&E risks to ensure that our control environment remains strong and effective. 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>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>Potential impact Vehicles breaking down at the roadside is inherently dangerous. Maintaining a safe environment for our members and for our workforce is absolutely critical to our business.</p>
<p>Principal risk: Financial risk</p> <p>Risk trend: Decreasing</p>	<p>Description The risk that the AA Limited group (Group) has insufficient liquid funds required for the business to operate, is unable to refinance its maturing debt, or unable to do this at affordable cost.</p> <p>Mitigation Despite a challenging macroeconomic environment, the Group has completed a successful refinancing of its A6 Notes, issuing £250m of A10 Notes in FY23, as well as a partial refinancing of its £550m A7 Notes in FY24 and continues to seek to refinance bonds well ahead of their maturity dates. The Group is highly cash generative and has good levels of available cash as well as a Working Capital Facility of £56m, of which £46m is available for cash drawings allowing it to withstand such macroeconomic challenges.</p>	<p>Potential impact The ability to finance is critical to the ongoing existence and operation of the Group. Credit rating, stakeholder management, financial market conditions and interest rates are all important factors. In particular, financing costs have increased as a result of rising interest rates as the economy sees higher levels of inflation.</p>
<p>Principal risk: Credit risk</p> <p>Risk trend: Stable</p>	<p>Description The Company is exposed to credit risk in relation to the intercompany balance due from a fellow subsidiary undertaking.</p> <p>Mitigation The AA Limited group monitors the recoverability of intercompany balances to ensure that there are sufficient resources to meet each counterparty's obligation.</p>	<p>Potential impact 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.</p>

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

STRATEGIC REPORT (continued)

Emerging Risks

In addition to monitoring the risks currently faced by the AA, we identify risks and opportunities on the horizon i.e. the risks and opportunities that could have a material impact on the AA in the future but where the timescale and/ or impact due to the nature of the risks remains uncertain.

The monitoring and management of emerging risks is a key part of the AA's strategic risk management process since the risks and opportunities can lead to changes in business strategy or operational ways of working that support the AA in it delivering long-term value to members, customers, employees and sponsors.

Emerging risks are identified using a PESTLE analysis, which categorises the risks into six high level themes:

Risk Type	Examples
Political	<ul style="list-style-type: none">• Current tax policy or future tax policy• Stability of government
Economic	<ul style="list-style-type: none">• Interest rates or exchange rates• Inflation
Social	<ul style="list-style-type: none">• Consumer behaviour• Brand and image
Technology	<ul style="list-style-type: none">• Competing technology development• Machine learning and artificial intelligence
Legal	<ul style="list-style-type: none">• Regulatory change• Legislative change
Environmental	<ul style="list-style-type: none">• Climate change• Energy availability and cost

We report on our emerging risks to our executive risk committee and relevant Group company Boards The most notable emerging risks and opportunities for the AA are summarised below.

Government reform

The Department for Business and Trade (formerly the Department for Business, Energy and Industrial Strategy) published its plans to strengthen the UK's audit, corporate reporting and corporate governance systems. The proposed measures aim to enhance accountability across the business ecosystem and increase resilience and choice in the statutory audit market. The AA has started to assess the potential impact and is making plans to respond to the expected future direction of financial reporting for in scope firms.

Climate change and TCFD

The AA recognises that climate change poses a number of transitional and physical risks and opportunities for business, people and our communities. We already have a well embedded process for modelling the impact of climate change and related weather events within our Roadside Operations to ensure we have the right resources to meet our members' needs.

Over the last 12 months we have identified further key climate related risks (such as adverse weather events and energy usage), we have been developing financial modelling of the most material to our future strategy and we're embedding the management of climate-related risks into our broader risk management framework. These key activities form part of our commitments under the Task Force for Climate related Financial Disclosure's (TCFD) recommendations, which will be reported in FY24.

These key activities form part of our commitments under the Task Force for Climate related Financial Disclosure's (TCFD) recommendations, which will be reported in FY24. We also recognise the critical importance of reducing our GHG emissions. We believe that driving doesn't have to cost the earth and that's why, as part of our ESG strategy, we are making a commitment to become Net Zero for our own emissions by 2035.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

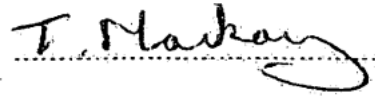
STRATEGIC REPORT (continued)

Emerging Risks (continued)

Global financial instability

Economic uncertainty is expected to remain high as a result of the geopolitical risks arising from the Russian war on Ukraine, a potential global banking crisis following the collapse of two U.S lenders, takeover of Credit Suisse and the UK's long term macroeconomic outlook. These are macroeconomic risks that we will continue to monitor through observation of the financial markets and the wider external environment.

ON BEHALF OF THE BOARD

A handwritten signature in black ink, appearing to read 'T. Mackay', written over a horizontal dashed line.

T O MACKAY
DIRECTOR
8 June 2023

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
D C Keeling
T O Mackay

Company secretary

J E Cox

DIRECTORS' INDEMNITY

The Company maintains appropriate directors' and officers' liability insurance cover. The Company also grants indemnities to each of its Directors to the extent permitted by law. Qualifying third-party indemnity provisions (as defined by Section 234 of the Act) were in force during the year ended 31 January 2023 and remain in force, in relation to certain losses and liabilities which the Directors may incur to third parties in the course of acting as Directors of the Company.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and Financial Statements 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.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

Information about the Company's corporate governance arrangements, and how these are applied within the wider AA group, can be found on pages 48 to 49 of AA Limited's Annual Report and Accounts 2023.

EMPLOYEE ENGAGEMENT

We remain committed to employee engagement throughout the business. Employees are kept updated on the AA's strategy and progress through regular communication emails and updates on the AA's intranet page. Further details of our workforce engagement and our people can be found on page 38 of the AA Limited's Annual Report and Accounts 2023. There are clear and transparent policies in place for employees to raise concerns about misconduct and unethical practices at the AA, which include but are not limited to: Whistleblowing Policy, Conflicts of Interest Policy and Anti-Bribery and Allowable Gifts, Hospitality and Donations Policy. The Board believes that a shared purpose, strategic vision and organisational culture across the organisation informs the management's decision-making and significant work has gone in to refreshing those elements during the course of the year. Regular employee engagement surveys address and monitor how well the organisational culture and values between senior management and their colleagues are embedded and aligned. The latest employee engagement survey, held in January 2023, had a response rate of 84% and an employee engagement score of 67%. Read more about how the Board has engaged with our people in the stakeholder engagement summary on page 38 of the AA Limited's Annual Report and Accounts 2023.

EMPLOYEES WITH DISABILITIES

The AA is proud of our policy that people with any disability should have full and fair consideration for all vacancies. The AA is a 'Disability Confident Committed employer – Level 1' and 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 and support employees in the workforce if they become disabled during employment. That support is provided in part through our 'Ability' employee network group.

To assist in the training, career development and promotion of disabled people, we have recently partnered with 10,000 Able Interns to offer support and unlock opportunities for them with the offer of a paid summer internship with the AA.

DIVIDENDS

The Company paid dividends in the year of £124m (2022: £124m) and the directors do not propose the payment of a final dividend (2022: £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 and review of the business" 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 ("Group"), hence the going concern status of the Company is linked to the wider Group. The Company directors have reviewed projected cash flows of the 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.

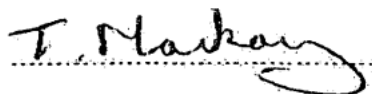
The Group continues to seek to refinance its debt within good time of its scheduled maturity, including the refinancing of £129m of A7 Notes which have a maturity date of 31 July 2024. As at the date of approval of these financial statements, £421m of the original £550m A7 Notes has already been refinanced.

The Company directors have confirmed these points with the AA Limited group directors and have reviewed the 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. The Company directors have concluded, with the AA Limited directors, that they have confidence that the Company and the AA Limited group will have sufficient funds to continue trading during this period and the foreseeable future 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 50-51 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 A7 notes, due on 31 July 2024, is currently in progress at the date of issue of these financial statements. The Company is an obligor of the Group's borrowings and in the event the refinancing of the A7 Notes is not successful, the Company may not be able to continue as a going concern. 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 in excess of a year from the date of issue of these financial statements.

However, after making appropriate enquiries and considering the uncertainty described above, the Company's directors have, at the time of approving these financial statements, a reasonable expectation that the AA Limited group and the Company have adequate resources to continue in operational existence for the foreseeable future and, as a consequence, consider that it is appropriate to adopt the going concern basis in preparing 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
8 June 2023

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 2023 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 2023; 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 or its controlled undertakings 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 AA Intermediate Co Limited group's borrowings and forms part of the corresponding debt security group for which the refinancing of the Class A7 Notes, due on 31 July 2024, 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 2023 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.

Auditors' responsibilities for the audit of the financial statements (continued)

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 and internal legal counsel, 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
9 June 2023

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 JANUARY

	Note	2023 £m	2022 £m
Revenue	2	652	616
Cost of sales		(347)	(318)
GROSS PROFIT		305	298
Administrative and marketing expenses		(286)	(313)
Impairment of property, plant and equipment	13	-	(3)
OPERATING PROFIT/(LOSS)	3	19	(18)
Income from shares in group undertakings	6	50	-
Finance income	7	33	28
Finance costs	8	(2)	(4)
PROFIT BEFORE TAX		100	6
Income tax (expense)/credit	9	(12)	2
PROFIT FOR THE FINANCIAL YEAR		88	8

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

	Note	2023 £m	2022 £m
PROFIT FOR THE FINANCIAL YEAR		88	8
Other comprehensive income 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)
		-	1
Other comprehensive (expense)/income on items that will not be reclassified to the income statement in subsequent years			
Remeasurement (losses)/gains on defined benefit pension schemes	20	(333)	316
Deferred tax on remeasurements of pension liability		83	(79)
		(250)	237
TOTAL OTHER COMPREHENSIVE (EXPENSE)/INCOME		(250)	238
TOTAL COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR		(162)	246

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

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

STATEMENT OF FINANCIAL POSITION AT 31 JANUARY

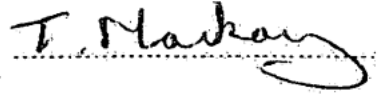
	Note	2023 £m	2022 Restated* £m
NON-CURRENT ASSETS			
Deferred tax assets	10	3	-
Investments in subsidiaries	11	502	502
Investments in joint ventures and associates	11	1	1
Intangible assets	12	46	40
Property, plant and equipment	13	29	30
Right-of-use assets	14	57	49
Defined benefit pension scheme asset	20	-	132
Trade and other receivables	16	4	2
Derivative financial instruments	31	-	1
		<u>642</u>	<u>757</u>
CURRENT ASSETS			
Inventories	15	4	4
Trade and other receivables	16	1,249	1,593
Derivative financial instruments	31	1	-
Current tax receivable		17	14
Cash and cash equivalents	34	79	46
		<u>1,350</u>	<u>1,657</u>
Assets classified as held for sale	30	-	5
TOTAL ASSETS		<u>1,992</u>	<u>2,419</u>
CURRENT LIABILITIES			
Trade and other payables	17	(592)	(847)
Provisions	18	(5)	(4)
Lease liabilities	19	(24)	(16)
		<u>(621)</u>	<u>(867)</u>
NON-CURRENT LIABILITIES			
Lease liabilities	19	(35)	(32)
Defined benefit pension scheme liabilities	20	(175)	-
Deferred tax liabilities	10	-	(72)
Provisions	18	(6)	(10)
Derivative financial instruments	31	(1)	-
		<u>(217)</u>	<u>(114)</u>
TOTAL LIABILITIES		<u>(838)</u>	<u>(981)</u>
NET ASSETS		<u>1,154</u>	<u>1,438</u>
EQUITY			
Share capital	33	-	-
Retained earnings		1,154	1,438
TOTAL EQUITY		<u>1,154</u>	<u>1,438</u>

*Trade and other receivables, deferred tax liability and retained earnings for the financial year ended 31 January 2022 have been restated due to a change in accounting policy. See note 35 for further details.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

STATEMENT OF FINANCIAL POSITION AT 31 JANUARY (continued)

These financial statements were approved by the board of directors on 8 June 2023 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'T. Mackay', is written over a horizontal dashed line.

T O Mackay
DIRECTOR
8 June 2023

Registered number: 01878835

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

	Note	Share capital £m	Cashflow hedge reserve £m	Retained earnings £m	Total equity £m
At 1 February 2021		-	(1)	1,305	1,304
Restatement*		-	-	7	7
At 1 February 2021 (restated*)		-	(1)	1,312	1,311
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	24	-	-	5	5
At 31 January 2022 (restated*)		-	-	1,438	1,438
Profit for the year		-	-	88	88
Other comprehensive expense		-	-	(250)	(250)
Total comprehensive expense		-	-	(162)	(162)
Dividends		-	-	(124)	(124)
Equity-settled share-based payments	24	-	-	2	2
At 31 January 2023		-	-	1,154	1,154

*Retained earnings as at 1 February 2021 and 31 January 2022 have been restated due to a change in accounting policy. See note 35 for further details.

The dividend per share paid to the parent company, AA Corporation Limited was £1,240 (2022: £1,240). The Company made a further dividend payment to AA Corporation Limited of £4m on 28 April 2023.

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

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 JANUARY

	Note(s)	2023 £m	2022 £m
Profit before tax		100	6
Amortisation, depreciation, and impairment	12,13,14	53	49
Net finance income	7,8	(31)	(24)
Other adjustments to profit before tax		(5)	39
Difference between pension charge and cash contributions		(23)	(22)
Working capital and provisions:			
(Increase)/decrease in trade and other receivables		98	64
Increase/(decrease) in trade and other payables		(11)	(10)
(Decrease)/increase in provisions		(2)	2
Total working capital and provisions adjustments		85	56
Net cash flows generated from operating activities before tax		179	104
Tax paid		(8)	(10)
Net cash flows generated from operating activities		171	94
Investing activities			
Capital expenditure		(27)	(28)
Proceeds from sale of fixed assets		14	2
Investments in joint ventures	11	(1)	(1)
Interest received		30	29
Net cash flows generated from investing activities		16	2
Financing activities			
Lease capital repayments		(28)	(25)
Payment of lease interest		(2)	(2)
Dividends paid		(124)	(124)
Net cash flows used in financing activities		(154)	(151)
Net increase/(decrease) in cash and cash equivalents		33	(55)
Cash and cash equivalents at 1 February		46	101
Cash and cash equivalents at 31 January	34	79	46

The accompanying notes are an integral part of this statement of cash flows.

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 £million.

1.2 Basis of preparation

The Company 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.

Going concern

The Company's business activities, future developments and its exposure to financial risks are described in the "Principal activity and review of the business" 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 ("Group"), hence the going concern status of the Company is linked to the wider Group. The Company directors have reviewed projected cash flows of the 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.

The Group continues to seek to refinance its debt within good time of its scheduled maturity, including the refinancing of £129m of A7 Notes which have a maturity date of 31 July 2024. As at the date of approval of these financial statements, £421m of the original £550m A7 Notes has already been refinanced.

The Company directors have confirmed these points with the AA Limited group directors and have reviewed the 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. The Company directors have concluded, with the AA Limited directors, that they have confidence that the Company and the AA Limited group will have sufficient funds to continue trading during this period and the foreseeable future 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 50-51 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 A7 notes, due on 31 July 2024, is currently in progress at the date of issue of these financial statements. The Company is an obligor of the Group's borrowings and in the event the refinancing of the A7 Notes is not successful, the Company may not be able to continue as a going concern. 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 in excess of a year from the date of issue of these financial statements.

However, after making appropriate enquiries and considering the uncertainty described above, the Company's directors have, at the time of approving these financial statements, a reasonable expectation that the AA Limited group and the Company have adequate resources to continue in operational existence for the foreseeable future and, as a consequence, consider that it is appropriate to adopt the going concern basis in preparing 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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 PRESENTATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

1.3 Accounting policies

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

a) Critical accounting estimates and judgements

Estimates are evaluated regularly 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 of 20% to 30% would result in a corresponding percentage increase in the amortisation charge based on the new useful life.

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 20 for sensitivity analysis).

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 value.

Leases

The Company 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 Company's external advisers on the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the relevant right-of-use asset.

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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 PRESENTATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

1.2 Accounting policies (continued)

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. This stream is accounted for under IFRS 4.

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) 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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 PRESENTATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

1.3 Accounting policies (continued)

e) 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.

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.

f) 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.

g) 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.

h) Inventory

Inventories are stated 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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 PRESENTATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

1.3 Accounting policies (continued)

i) 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.

j) Taxation

Tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the 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.

k) 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.

l) 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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 PRESENTATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

1.3 Accounting policies (continued)

l) Retirement benefit obligation (continued)

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.

m) Financial instruments

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

Trade receivables

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

Trade payables

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

Cash and cash equivalents

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

Equity instruments (share capital issued by the Company)

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

Derivative financial instruments

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

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 PRESENTATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

1.3 Accounting policies (continued)

m) Financial instruments (continued)

Cash flow hedges (continued)

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.

n) Share-based payments

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

o) 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. Some items may span over more than one year.

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.

p) Deferred acquisition costs

Roadside acquisition costs are expensed to the income statement in full at the commencement of the insurance policy except where the risk is underwritten by the Company in which case the costs are initially deferred the expensed over the duration of the policy. These costs are presented in the income statement within administrative and marketing expenses. As this is a change in accounting policy during the year, this has resulted in a restatement of the prior year financial statements (see note 35).

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

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:

	2023 £m	2022 £m
Roadside:		
Consumer (B2C)		
Insured contracts	348	336
Pay for use contracts ¹	54	47
Business Services (B2B)		
Insured contracts	31	31
Pay for use contracts ¹	191	178
Roadside other	28	24
Total Roadside	652	616

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.

3 OPERATING PROFIT/(LOSS)

Operating profit/(loss) is stated after charging:

	2023 £m	2022 £m
Amortisation of owned intangible assets (note 12)	13	12
Depreciation of		
- Owned tangible fixed assets (note 13)	10	10
- Right-of-use assets (note 14)	30	24
Amortisation of acquisition costs (note 16)	27	22
Impairment of property, plant and equipment (note 13)	-	3
Share-based payments (note 24)	2	5
Pension service charge adjustment (note 20)	5	4
Past pension service cost (note 20)	-	26
Adjusting operating items (note 4)	10	21
Brand royalty payment (note 21)	79	75
Corporate recharge	99	79
	275	281

Auditors' remuneration in respect of the audit of the Company's financial statements for the year ended 31 January 2023 amounted to £506,000 (2022: £371,000). The Company's auditors provided no services to the Company other than the annual audit during either the current or prior year.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

4 ADJUSTING OPERATING ITEMS

	2023 £m	2022 £m
Adjusting operating items	<u>(10)</u>	<u>(21)</u>
	<u>(10)</u>	<u>(21)</u>

Adjusting operating items in the year ended 31 January 2023 comprised £14m recharges of group adjusting operating costs, £2m cost of living payments, £1m impairment of investment in joint ventures (see note 11) and £1m relating to legal costs on a claim on which a judgement was favourably handed down and was successfully defended on all material elements. These items were partly offset by £8m profit on the sale of fixed assets.

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 11), £1m of strategic review costs and a £2m gain on the disposal of non-current assets.

5 EMPLOYEE COSTS

Employee costs during the year were as follows:

	2023 £m	2022 £m
Wages and salaries	163	153
Social security costs	18	16
Other pension costs	22	22
Share-based payments	2	5
	<u>205</u>	<u>196</u>

Wages and salaries includes £2m (2022: £nil) of one off cost-of-living payments with no service requirement within adjusted operating items (see note 4).

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

	2023	2022
Operational	5,477	5,524
Management and administration	1,298	1,263
	<u>6,775</u>	<u>6,787</u>

6 INCOME FROM SHARES IN GROUP UNDERTAKINGS

	2023 £m	2022 £m
Dividends from subsidiary undertakings	<u>50</u>	-
	<u>50</u>	-

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 FINANCE INCOME

	2023	2022
	£m	£m
Interest income on bank deposits	2	-
Finance income in respect of ABF scheme (see note 21)	11	11
Return on investment in AA Pension Funding LP (see note 21)	17	17
Net finance income on defined benefit pension schemes (see note 20)	3	-
	33	28

8 FINANCE COSTS

	2023	2022
	£m	£m
Finance charges payable on lease liabilities	2	2
Net finance expense on defined benefit pension schemes	-	2
	2	4

9 INCOME TAX EXPENSE/(CREDIT)

The income tax expense is made up as follows:

	2023	2022
	£m	£m
Current tax:		
- UK Corporation Tax at 19.0% (2022: 19.0%)	3	2
- Group relief payable	2	-
- Adjustments in respect of prior periods	(1)	-
Total current tax charge	4	2
Deferred tax:		
- Origination and reversal of temporary differences	4	(2)
- Adjustments in respect of prior periods	2	-
- Effect of UK corporate tax rate changes	2	(2)
Total deferred tax charge/(credit)	8	(4)
Total income tax charge/(credit) on ordinary activities	12	(2)

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

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

9 INCOME TAX EXPENSE/(CREDIT) (continued)

Reconciliation of income tax charge/(credit) to profit before tax multiplied by UK's corporation tax rate:

	2023 £m	2022 £m
Profit before tax	100	6
Tax at rate of 19.0% (2022: 19.0%)	19	1
Effects of:		
- Adjustments in respect of prior periods	1	-
- Non-taxable dividend income	(10)	-
- Effect of UK corporation tax rate change	2	(2)
- Non-taxable release of related party debt	-	2
- Use of group losses	-	(3)
Income tax expense/(credit) reported in the income statement	12	(2)

10 DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax by type of temporary difference:

	Statement of financial position		Income statement	
	2023 £m	2022* £m	2023 £m	2022 £m
Decelerated capital allowances	4	7	3	(2)
Other short-term temporary differences	2	3	1	(1)
Pensions	(1)	(79)	5	(2)
Capital gains rolled over	(2)	(2)	-	1
Restatement of deferred acquisition costs*	-	(1)	(1)	-
Deferred tax expense/(credit)	3	(72)	8	(4)
Deferred tax assets/(liabilities)	3	(72)	£m	£m*
Deferred tax (liabilities)/assets as at 1 February			(72)	3
(Charge)/credit to the income statement			(8)	4
(Charge)/credit recognised in other comprehensive income			83	(79)
Deferred tax assets/(liabilities) as at 31 January			3	(72)

*Prior year net deferred tax liability has been restated. See note 35 for further details.

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 would 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 2023 and 31 January 2022. The effect of the tax rate increase has been a deferred tax charge of £2m (2022: 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.

A deferred tax asset of £1.5m (2022: £0.4m) has not been recognised on capital losses.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 INVESTMENTS IN GROUP UNDERTAKINGS

	Shares in subsidiary undertakings £m	Shares in joint ventures and associated undertakings £m
Cost		
At 1 February 2021	556	3
Additions	-	1
At 31 January 2022	556	4
Additions	-	1
At 31 January 2023	556	5
Impairment		
At 1 February 2021	54	2
Impairment charge	-	1
At 31 January 2022	54	3
Impairment charge	-	1
At 31 January 2023	54	4
Net book value		
At 31 January 2023	502	1
At 31 January 2022	502	1

See note 26 for details of group undertakings held.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 INTANGIBLE ASSETS

	Goodwill £m	Software £m	Total £m
Cost			
At 1 February 2021	8	60	68
Additions	-	15	15
Disposals	-	(3)	(3)
At 31 January 2022	8	72	80
Additions	-	19	19
Disposals	-	(4)	(4)
At 31 January 2023	8	87	95
Accumulated amortisation			
At 1 February 2021	8	24	32
Amortisation	-	12	12
Disposals	-	(4)	(4)
At 31 January 2022	8	32	40
Amortisation	-	13	13
Disposals	-	(4)	(4)
At 31 January 2023	8	41	49
Net book value			
At 31 January 2023	-	46	46
At 31 January 2022	-	40	40

Within software, £4m (2022: £8m) relates to assets under construction which are not amortised.

Software additions comprise £5m (2022: £5m) in relation to internally developed assets and £14m (2022: £10m) 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 (continued)

13 PROPERTY, PLANT AND EQUIPMENT

	Freehold land & buildings £m	Buildings on long leasehold land £m	Plant & equipment £m	Total £m
Cost				
At 1 February 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
Additions	-	-	10	10
Disposals	-	-	(14)	(14)
At 31 January 2023	-	11	60	71
Accumulated depreciation and impairment				
At 1 February 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
Charge for year	-	-	10	10
Disposals	-	-	(13)	(13)
At 31 January 2023	-	11	31	42
Net book value				
At 31 January 2023	-	-	29	29
At 31 January 2022	-	-	30	30

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

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

14 RIGHT-OF-USE ASSETS

	Property £m	Vehicles & equipment £m	Total £m
Cost			
At 1 February 2021	21	75	96
Additions	6	16	22
Disposals restated*	-	(10)	(10)
At 31 January 2022*	27	81	108
Additions	2	37	39
Disposals	-	(16)	(16)
At 31 January 2023	29	102	131
Accumulated depreciation			
At 1 February 2021	3	41	44
Charge for the year	2	22	24
Disposals restated*	-	(9)	(9)
At 31 January 2022*	5	54	59
Charge for the year	3	27	30
Disposals	-	(15)	(15)
At 31 January 2023	8	66	74
Net book value			
At 31 January 2023	21	36	57
At 31 January 2022	22	27	49

*Disposals of vehicles & equipment for the year ended 31 January 2022 have been restated to correct an error relating to the prior year (see note 35).

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

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

15 INVENTORIES

	2023	2022
	£m	£m
Finished goods and goods for resale	<u>4</u>	<u>4</u>

Cost of sales included £27m (2022: £24m) of inventories recognised as an expense. £1m (2022: £nil) has been charged to cost of sales in relation to inventory write-downs consisting of a £3m charge (2022: £nil) and a £2m release (2022: £nil).

16 TRADE AND OTHER RECEIVABLES

	2023	2022
	£m	Restated* £m
Current		
Trade receivables	33	36
Amounts owed by group undertakings	1,176	1,520
Other receivables	5	3
Deferred acquisition costs (see reconciliation below)	6	8
Contract assets	16	14
Prepayments	13	12
	<u>1,249</u>	<u>1,593</u>
Non-current		
Lease receivables	<u>4</u>	<u>2</u>

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

Deferred acquisition costs

	2023	2022
	£m	Restated* £m
Current		
At 1 February	8	8
Acquisition expenses during the year	25	22
Amortisation charge for the year	(27)	(22)
At 31 January	<u>6</u>	<u>8</u>

*Deferred acquisition costs have been restated due to a change in accounting policy. See note 35 for further details.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

17 TRADE AND OTHER PAYABLES

	2023	2022
	£m	£m
Trade payables	27	21
Amounts owed to group undertakings	361	606
Accruals	27	26
Deferred income	166	166
Other taxes and social security costs	-	21
Other payables	11	7
	592	847

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

18 PROVISIONS

	Property leases £m	Self- funded insurance £m	Other £m	Total £m
At 1 February 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
Utilised during the year	(1)	(6)	-	(7)
Released during the year	-	(2)	-	(2)
Charge for the year	-	6	-	6
At 31 January 2023	3	6	2	11
Current	-	3	2	5
Non-current	3	3	-	6
At 31 January 2023	3	6	2	11
Current	-	3	1	4
Non-current	4	5	1	10
At 31 January 2022	4	8	2	14

The property leases provision primarily relates to dilapidations. These sums are mainly expected to be paid out over the next 6 years; however, it will take 9 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 (2022: £2m) in relation to a warranty for vehicle part replacements. Self-funded insurance liabilities total £6m (2022: £8m), 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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

19 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:

	2023		2022	
	Present value of payments £m	Minimum payments £m	Present value of payments £m	Minimum payments £m
Within one year	24	25	16	18
Between one and five years	31	34	17	22
After five years	4	13	15	24
Total minimum lease payments	59	72	48	64
Less amounts representing finance charge	-	(13)	-	(16)
Present value of minimum lease payments	59	59	48	48

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 £3m (2022: £4m).

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 2023, the principal outstanding on the AA Intermediate Co Limited group debt was £2,325m (2022: £2,325m).

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 (continued)

20 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 2023 by independent qualified actuaries.

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

	As at 31 January 2023		
	AAUK £m	AAPMP £m	Total £m
Present value of the defined benefit obligation in respect of pension plans	(1,730)	(24)	(1,754)
Fair value of plan assets	1,579	-	1,579
(Deficit)	(151)	(24)	(175)

	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

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 PENSIONS (continued)

The overall surplus of £132m as at 31 January 2022 has moved to a deficit of £175m as at 31 January 2023, which represents a change of £307m over the year. Gilt yields increased significantly over FY23, with a high level of volatility seen during September and October in particular. The AAUK scheme invests part of its assets in a Liability Driven Investment ('LDI') mandate, held for risk management purposes. Specifically, this mandate has historically been designed to "hedge" the impact on the value of the AAUK scheme's liabilities from changes in gilt yields (and inflation), to help to protect the AAUK scheme's funding position. Gilt yield increases to mid-October led to a significant fall in the size of the liabilities, with a broadly corresponding fall in LDI assets.

Following the Bank of England intervention in October, gilt yields fell to lower levels. This led to an increase in the value of the AAUK scheme's liabilities – with a lower level of hedging, the asset value lagged behind. This had a meaningful impact in reducing the IAS19 surplus from earlier in FY23. The IAS 19 position suffered further from (i) funding liabilities being larger than IAS 19 liabilities, plus contractions in AA-rated corporate bond yields relative to gilts, meaning that the fall in hedging assets (linked to the funding basis) were relatively larger than IAS 19 liability falls, (ii) worse than assumed performance of other asset classes, and (iii) very high price inflation experienced relative to long-term expectations at the start of year. In aggregate, these impacts meant that the AAUK scheme has moved into a statement of financial position deficit at 31 January 2023.

In February 2023, the actuarial triennial review for the AAUK pension scheme was completed as at 31 March 2022. This resulted in a significant reduction to the technical provisions deficit of around 60% from £131m as at 31 March 2019 to £53m. The Asset-Backed Funding mechanism, which provides a long-term deficit reduction plan, and additional contribution schedule remain in place from the 2019 valuation. Under the asset-back funding scheme, the Company makes an annual deficit reduction contribution of £15m increasing annually with inflation, until October 2038 or until the AAUK scheme funding deficit is removed if earlier, secured on the Company's brands. Under the additional contribution schedule (i.e. contributions in excess of the Asset-Backed Funding mechanism) the Company pays £12m per annum until July 2025. The trustee meets its own costs of running the AAUK 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.

The next triennial actuarial valuation for the AA UK Pension Scheme will be carried out as at 31 March 2025 (the "2025 Valuation"). The AA and the AA UK Pension Trustee have until 30 June 2026 to agree the 2025 Valuation and any recovery plan to pay off any funding deficit identified.

The 2025 Valuation could vary from the 2022 Valuation meaning the payments required into the AA UK Pension Scheme under any recovery plan could increase or decrease from those agreed for the 2022 Valuation.

The ongoing volatility from accrual costs has been removed but future volatility of deficit costs does remain. Markets still have the potential to be volatile following the reporting date. The Company is exposed to various risks in connection with the funding of the pension commitments under the AA UK Pension Scheme (our principal defined benefit plan), the AA Ireland Pension Scheme and our post-retirement medical scheme, which could have a material adverse effect on our business, prospects, financial condition and results of operations.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 PENSIONS (continued)

The assets of the AA UK Pension Scheme is invested in various investment vehicles which are susceptible to market volatility, interest rate risk and other market risks, any of which could result in decreased asset value and a significant increase in our net pension obligations.

Using an inflation assumption of 3.1% and a discount rate assumption of 4.5%, 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, whether or not an IAS 19 surplus position is shown. The Company notes that, in the event a surplus is shown, it would have an unconditional right to a refund of the surplus assuming the gradual settlement of AAUK scheme liabilities over time until all members have left the scheme.

In total, the Company paid £27m (2022: £26m) in deficit reduction employer contributions to its defined benefit plans in the year ending 31 January 2023.

In January 2022, the Group 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 consolidated income statement of £16m in respect of defined contribution pension scheme costs in the year (2022: £17m).

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 PENSIONS (continued)

Total Company Schemes

	Assets £m	Liabilities £m	Income statement £m	Other comprehensive income £m
Balance at 1 February 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)	-	-
Administrative expenses	(5)	-	(5)	-
Interest on defined benefit scheme assets/(liabilities)	59	(56)	3	-
Amounts recognised in the income statement	54	(56)	(2)	-
Effect of changes in financial assumptions	-	828	-	828
Effect of changes in demographic assumptions	-	22	-	22
Effect of experience adjustment	-	(134)	-	(134)
Return on plan assets excluding interest income	(1,049)	-	-	(1,049)
Amounts recognised in the statement of comprehensive income	(1,049)	716	-	(333)
Benefits paid from scheme assets	(71)	71	-	-
Deficit reduction employer contributions	27	-	-	-
Ongoing employer contributions	1	-	-	-
Movements through cash	(43)	71	-	-
Balance at 31 January 2023	1,579	(1,754)	-	-

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 PENSIONS (continued)

AAUK scheme

	Assets £m	Liabilities £m	Income statement £m	Other comprehensive income £m
Balance at 1 February 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)	-	-
Administrative expenses	(5)	-	(5)	-
Interest on defined benefit scheme assets/(liabilities)	59	(55)	4	-
Amounts recognised in the income statement	54	(55)	(1)	-
Effect of changes in financial assumptions	-	820	-	820
Effect of changes in demographic assumptions	-	21	-	21
Effect of experience adjustment	-	(133)	-	(133)
Return on plan assets excluding interest income	(1,049)	-	-	(1,049)
Amounts recognised in the statement of comprehensive income	(1,049)	708	-	(341)
Benefits paid from scheme assets	(70)	70	-	-
Deficit reduction employer contributions	27	-	-	-
Movements through cash	(43)	70	-	-
Balance at 31 January 2023	1,579	(1,730)	-	-

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 PENSIONS (continued)

AA PMP scheme

	Assets £m	Liabilities £m	Income statement £m	Other comprehensive income £m
Balance at 1 February 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)	-	-
Interest on defined benefit scheme assets/(liabilities)	-	(1)	(1)	-
Amounts recognised in the income statement	-	(1)	(1)	-
Effect of changes in financial assumptions	-	8	-	8
Effect of changes in demographic assumptions	-	1	-	1
Effect of experience adjustment	-	(1)	-	(1)
Amounts recognised in the statement of comprehensive income	-	8	-	8
Benefits paid from scheme assets	(1)	1	-	-
Ongoing employer contributions	1	-	-	-
Movements through cash	-	1	-	-
Balance at 31 January 2023	-	(24)	-	-

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 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:

	2023		2022	
	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	-	88	-	439
Bonds/gilts	326	325	322	667
Property	6	209	15	300
Hedge funds	1	60	-	194
Private equity	-	138	-	110
Cash/net current assets	46	14	19	66
Annuity policies	-	366	-	485
Total AAUK scheme assets	379	1,200	356	2,261
Movement on AAUK plan assets (excluding admin expenses)		(990)		91

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.

During the year, the LDI hedge required posting of funds to support its value, resulting in the reduction of liquid assets.

Of the £1,200m (2022: £2,261m) assets without a quoted market price at 31 January 2023, £366m (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 £19m (2022: £29m) of unquoted assets allocated to private equity and £10m (2022: £13m) of unquoted assets allocated to property have been measured at amortised cost rather than fair value.

Investment strategy

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

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 PENSIONS (continued)

Investment strategy (continued)

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.

Pension plan assumptions

The principal actuarial assumptions were as follows:

	AAUK		AAPMP	
	2023 %	2022 %	2023 %	2022 %
Pensioner discount rate	4.5	2.3	4.5	2.3
Non-pensioner discount rate	4.5	2.3	4.5	2.3
Pensioner RPI	3.1	3.6	3.1	3.6
Non-pensioner RPI	3.1	3.3	3.1	3.6
Pensioner CPI	2.3	3.0	2.3	3.0
Non-pensioner CPI	2.3	2.7	2.3	3.0
Rate of increase of pensions in payment (final salary sections) – pensioner	2.9	3.5	-	-
Rate of increase of pensions in payment (final salary sections) – non-pensioner	2.9	3.2	-	-
Rate of increase of pensions in payment (CARE section) – pensioner	1.7	2.2	-	-
Rate of increase of pensions in payment (CARE section) – non-pensioner	1.7	2.0	-	-
Pension increase for deferred benefits	2.3	2.7	-	-
Medical premium inflation rate	-	-	7.1	7.6

Mortality assumptions are set using standard tables based on scheme-specific experience where available and an allowance for future improvements. For 2023, the assumptions used were in line with the SAPS (S3) series mortality tables with scheme-specific adjustments (2022 – SAPS (S3) series with scheme-specific adjustments) with future improvements in line with the CMI_2021 model with a 1.25% long-term rate of improvement plus a 2020 and 2021 experience weightings of 10% (2022 – CMI_2020 model with a 1.25% long-term rate of improvement).

An inflation volatility assumption of 2.00% p.a. was used.

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 (2022: 25 years) and an active female retiring in normal health currently aged 60 will live on average for a further 28 years (2022: 28 years).

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 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 2023

	AAUK £m	AAPMP £m
Increase of 1% in discount rate	234	3
Increase of 1% in RPI and CPI	(193)	-
Increase of 1% in CPI only	(79)	-
Increase of 1% in medical claims inflation	-	(3)
Increase of one year of life expectancy	(51)	-

An equivalent decrease in the assumptions at 31 January 2023 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 2023 is around 15 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 (continued)

20 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.

Liquidity risk

Alongside contributions received from the Company, the AAUK scheme's investments need to generate sufficient cash inflow to meet member benefits as they fall due. In addition, the AAUK scheme should also maintain enough liquid financial resources to support the financial derivatives used in, for example, the hedging strategy via the LDI mandate. Holding insufficient liquid resources could risk the AAUK scheme being unable to realise investments at their expected value in a timely manner, which could lead to reductions in the funding position or a reduction in the level of hedging in place.

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 2023, the scheme had hedged around 70% of interest rate and 80% of inflation risk (of the non-insured liabilities on the scheme-specific self-sufficiency measure). The reduction from 80% of interest rate risk at 31 January 2022 reflects the reduction in hedging resulting from increased liquidity requirements and market movements affecting the LDI mandate. 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 Group, 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 £366m as at 31 January 2023. 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 Group's exposure to future increases in the deficit.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

21 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 £79m (2022: £75m) 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 (2022: £17m). Monthly repayments of the partnership contribution are made by the Scottish Limited Partnership which amounted to £18m (2022: £18m) in the year. The balance of the partnership contribution as at 31 January 2023 was £382m (2022: £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 (2022: £11m). 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 (2022: £15m). The balance of the pension contribution as at 31 January 2023 was a receivable of £170m (2022: receivable £174m) and is repayable over 25 years up to 2038.

At 31 January 2023, the Company also had an intercompany payable balance due to the Scottish Limited Partnership of £3m (2022: intercompany payable of £4m) bringing the aggregate amount receivable to £549m (2022: £554m).

22 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 21.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

22 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 19.

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 21. In addition, the Company has lease liabilities due over the medium term as shown in note 19. 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:

	2023 £m
Share capital	-
Retained earnings	1,154
Total capital	1,154

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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

23 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

Financial assets

	2023 £m	2022 £m
Financial assets at fair value through other comprehensive income		
Derivative financial instruments (see note 31)	1	1
Financial assets at amortised cost		
Cash and cash equivalents (see note 34)	79	46
Trade receivables (see note 16)	33	36
Contract assets and other receivables (see note 16)	21	17
Amounts owed by group undertakings (see note 16)	1,176	1,520
Total financial assets	1,310	1,620

Financial liabilities

	2023 £m	2022 £m
Financial liabilities at fair value through other comprehensive income		
Derivative financial instruments (see note 31)	1	-
Financial liabilities at amortised cost		
Trade payables (note 17)	27	21
Other payables and accruals (see note 17)	38	33
Lease liabilities (see note 19)	59	48
Amounts owed to group undertakings (see note 17)	361	606
Total financial liabilities	486	708

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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

23 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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 2023. They have fair values based on quoted prices in active markets (Level 1) and their carrying value is therefore equal to their fair value.

24 SHARE-BASED PAYMENTS

	2023 £m	2022 £m
Equity-settled share-based payments:		
Shared-based payments – Management Equity Plan	-	-
Share-based payments – Employee Share Incentive Plan	-	3
Share-based payments – Performance Share Plan	-	2
Total equity-settled share-based payments	-	5
Cash-settled share-based payments:		
Share-based payments – Long Term Incentive Plan	2	-
Total cash-settled share-based payments	2	-
Total share-based payments expense	2	5

Long Term Incentive Plan

In the year ended 31 January 2023, AA Limited (an indirect parent of the Company) implemented a Long-Term Incentive Plan (“cash LTIP”), granting benefits to key members of senior management. These benefits vest based on certain performance conditions.

A vesting date of 31 January 2026 has been assumed for this scheme and it is expected to be settled in cash. On the basis of the above, the cash LTIP has been accounted for in line with IFRS 2, with the fair value of the cash LTIP liability, based on investment return multiples, being recognised over the expected life of the scheme.

The vesting charge for the current year is £2m.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

24 SHARE-BASED PAYMENTS (continued)

Management Equity Plan (MEP)

Basing TopCo (an indirect parent of the Company) operates a management equity plan which grants senior management awards 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 Automobile Association Developments Limited, the share-based payment charge has been accounted for within the Company. The charge for the year ended 31 January 2023 was £nil (2022: £nil).

The fair value of awards under the plan was 5.3p each.

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

- Equity value – Based on the Company's equity value inclusive of preference shares
- Expected term – Vesting date of March 2026 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

25 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 £123m (2022: £105m).

A share-based payments cost of £2m (2022: £5m) was incurred by the Company (see note 24) in relation to its employees.

As the principal employer for the AAUK pension scheme (see note 20), the Company entered into an asset backed funding scheme in November 2013. Further details on this arrangement is given in note 21.

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 £99m including £14m of adjusting operating costs (2022: £79m including £8m 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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

25 RELATED PARTY TRANSACTIONS (continued)

The outstanding balances with other Basing Consortium Co Limited group companies are as follows:

Entity	Relationship	2023 £m	2022 £m
AA Corporation Limited	Parent	(277)	(522)
Automobile Association Insurance Services Limited	Fellow subsidiary	(1)	2
Accident Assistance Services Limited	Fellow subsidiary	(2)	(1)
AA Senior Co Limited	Indirect parent	-	455
AA Mid Co Limited	Indirect parent	20	20
AA Limited	Indirect parent	-	2
AA Bond Co Limited	Fellow subsidiary	603	484
AA Technical Solutions Limited	Fellow subsidiary	3	-
Longacre Claims Limited	Fellow subsidiary	1	-
AA Underwriting Insurance Company Limited	Fellow subsidiary	(34)	(32)
AA Pension Funding LP	Subsidiary	549	554
AA Brand Management Limited	Subsidiary	(47)	(51)
		815	911

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 Company. A loan amounting of £0.2m was made to a member of key management personnel in the prior year at an interest rate of 1.3% per annum from the Company 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	2023 £m	2022 £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	2023 £m	2022 £m
DRVN Solutions Limited	Supply of goods	1	1

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

26 SUBSIDIARY 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 / C	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.

Registered Office Key

Registered Office	Key
Fanum House, Basing View, Basingstoke, Hampshire, RG21 4EA, England	A
20 Castle Terrace, Edinburgh, EH1 2EN, Scotland	B
Building 1, 9 Haymarket Square, Edinburgh, Scotland, EH3 8RY	C

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.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

27 KEY MANAGEMENT COMPENSATION

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the AA 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:

	2023 £m	2022 £m
Short-term employee benefits	7	5
Compensation of loss of office	-	1
Share-based payments	1	1
Total compensation paid to key management personnel	8	7

28 ULTIMATE PARENT UNDERTAKING AND ULTIMATE CONTROLLING PARTY

The Company is a wholly owned subsidiary of AA Corporation Limited, a company registered in England and Wales, 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 parent of the largest group to consolidate these financial statements is AA 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.

29 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.

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 2023 but have not been applied by the Company in these financial statements. These are set out below (effective dates are UK effective dates). For those new accounting standards other than IFRS 17, management are currently at an early stage of assessing their impact on the Company.

- Amendments to IFRS 16, 'Leases' on leases on sale and leaseback (effective date 1 January 2024)
- Amendments to IAS 1, 'Presentation of financial statements' on non current liabilities with covenants (effective date 1 January 2024)
- 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) – see below

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

29 ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (continued)

IFRS 17

The Company will apply IFRS 17 with effect from 1 February 2023. IFRS 17 introduces a significant change to the accounting for insurance contracts. Our impact assessment is currently ongoing because transition work has not been finalised. The key transition activities that remain ongoing are:

- Continued refinement of the accounting policies and reporting processes, including embedding of operational controls, used in the production of IFRS 17 results;
- Continued assessment and challenge of the key assumptions, judgements and estimation techniques applied in the Group's IFRS 17 methodologies; and
- Continued testing of systems and processes that is currently underway.

Key principles, assumptions, judgements, and methodologies

The Company will apply IFRS 17 retrospectively. The transition date for the Company is therefore 1 February 2022 and the Company will restate the 31 January 2022 Balance Sheet (the opening balance sheet) such that a comparative income statement can be presented in the 31 January 2024 financial statements.

Recognition

The Company has identified insurance contracts written within the scope of IFRS 17. The insurance contracts written by the Company are largely Roadside contracts underwritten by the Company where the fixed fee exemption does not apply. The Company has identified one portfolio, being Roadside contracts, which will be allocated to groups within these portfolios based upon the expected profitability and ensuring that groups of contracts contain only contracts issued no more than one year apart. All other contracts written and sold by the Company are outside of the scope of IFRS 17.

Measurement

All of the Company's insurance contracts written have been assessed as eligible for the Premium Allocation Approach (PAA). This is primarily because most contracts provide coverage for one year or less

Under the PAA, the liability for remaining coverage at initial recognition is measured as the premium received less deferred acquisition costs incurred. The Company has not taken advantage of the exemption to expense acquisition costs under the PAA and has elected to defer such costs over the groups of contracts to which the costs relate.

Subsequently, the liability for remaining coverage is increased for any premiums received and then decreased by the amount recognised as insurance revenue for services provided. As permitted under IFRS 17, the Company has elected not to adjust the liability for remaining coverage for the time value of money and the effect of financial risk.

If at any time before, or during coverage, facts and circumstances indicate that a Company of contracts is onerous, then the Company will increase the liability for remaining coverage by including a loss component, with the loss being recognised in the income statement.

For the Roadside insurance contracts where claims (breakdown recoveries) are incurred and settled in a short time period (within the same day) there is not expected to be any liability for incurred claims outstanding at any point in time.

Presentation & disclosure

IFRS 17 will significantly change the presentation of the results and statement of financial position. The main changes for the Company are:

- Portfolios of insurance contracts that are assets and liabilities will be presented separately on the face of the statement of financial position;
- All rights and obligations arising from a portfolio of insurance contracts will be presented on a net basis, therefore, balances such as insurance receivables and unearned premium will no longer be presented separately;
- The effect of the time value of money and other financial risks and changes thereof will be presented as insurance finance income or expense (IFIE) outside of the insurance result.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

29 ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (continued)

Policy choices and judgements

The Company has applied the following policy choices and judgements in setting the IFRS 17 methodology:

Area	Methodology / Judgement
PAA eligibility	The Company has developed a PAA eligibility framework for contracts that are not automatically eligible for PAA. This framework assesses the significance of differences between the GMM and PAA. The Company's preliminary conclusion is that all contracts are eligible for PAA.
Deferred acquisition costs	The Company has elected to defer acquisition cost under the PAA, and not take advantage of expensing acquisition costs where it may have been eligible. There is judgement in determining what costs are acquisition costs and judgement in determining the period over which those costs are recognised in the liability for remaining coverage (LRC).

Impact

The PAA is largely consistent with the current accounting treatment when measuring the liability for remaining coverage and liability for incurred claims with the following points of note relevant for the Company:

Area	Change from existing accounting	Impact on equity on transition
Deferred acquisition costs	There is a change in the definition of what constitutes an acquisition cost with IFRS 17 permitting both costs from successful and unsuccessful activity, inclusion of an element of acquisition overhead, and where applicable allocation of the costs to future groups of contracts. Currently the Company defers acquisition costs over the current contract and under IFRS 17 the Company will defer them over the future (renewal) contracts where appropriate.	Increase
Loss component	Our identification of onerous contracts under IFRS 17 will be at a more granular level than our current accounting. Any groups of contracts that are onerous will recognise a loss component. Currently no equivalent of a loss component is recognised. Our initial analysis suggests a small loss component will be recognised on transition although business changes post General Insurance Pricing Practices will reduce the loss component over time	Decrease

Transition

Given the application of the PAA and the policy choices and judgements above, the Company is expecting upon transition to apply IFRS 17 using the full retrospective approach.

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

30 ASSETS CLASSIFIED AS HELD FOR SALE

During the prior year, the sale of a property was approved. The sale of the property completed in the year and resulted in a profit on sale of £1m which is included in the consolidated income statement.

The assets classified as held for sale were:

	2023 £m	2022 £m
Property, plant and equipment	-	5
Total	-	5

31 DERIVATIVE FINANCIAL INSTRUMENTS

	2023 £m	2022 £m
Non-current assets		
Forward fuel contracts	-	1
Current assets		
Forward fuel contracts	1	-
Non-current liabilities		
Forward fuel contracts	(1)	-
Total	-	1

The forward fuel contracts are shown and settled on a net basis. On a gross basis, the asset is £1m (2022: £1m) and the liability is £1m (2022: £nil). In the current year, the net position of the forward fuel contracts is nil.

32 DIRECTORS' REMUNERATION

	2023 £m	2022 £m
Aggregate remuneration in respect of qualifying services	2	3
Share-based payments (see note 24)	-	1
Compensation for loss of office	-	1
	2	5

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

Remuneration	1.1	0.6
Share-based payments (see note 24)	0.1	0.4
Compensation for loss of office	-	0.5
	1.2	1.5

All directors of the Company were also directors of the ultimate parent undertaking (Basing ConsortiumCo Limited) and/or fellow subsidiaries during the 2023 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 (2022: nil) directors under a defined benefit scheme and no (2022: nil) directors under a money purchase scheme. There was £nil compensation to directors for loss of office in the year (2022: £1m).

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

33 SHARE CAPITAL

	2023	2022
	£m	£m
Allotted, called up and fully paid		
100,000 (2022: 100,000) ordinary shares of £1 each	-	-

In the year ended 31 January 2023, the Company paid a dividend of £124m (2022: £124m).

34 CASH AND CASH EQUIVALENTS

	2023	2022
	£m	£m
Cash at bank and in hand	79	46

35 PRIOR YEAR RESTATEMENTS

Due to a change in accounting policy, during the year the Company began deferring Roadside acquisition costs, where the risk is underwritten by the Company. This has resulted in a restatement of the prior year financial statements.

	Previously reported 31 January 2022	Change in accounting policy – effect of restatement	Restated 31 January 2022
	£m	£m	£m
Consolidated statement of financial position			
Trade and other receivables	1,585	8	1,593
Deferred tax liability	(71)	(1)	(72)
Retained earnings as at 1 February 2022	1,431	7	1,438

Note: There was no restatement in the consolidated income statement for year ended 31 January 2022.

Disposals of cost and accumulated depreciation in respect of certain fully depreciated right-of-use assets had been overstated, due to an error, in the right-of-use assets disclosure note for the year ended 31 January 2022. Below is the impact on the right-of use assets note as at 31 January 2022.

	Previously reported 31 January 2022	Effect of restatement	Restated Balance
	£m	£m	£m
Vehicles and equipment – cost			
At 1 February 2021	75	-	75
Additions	16	-	16
Disposals	(23)	13	(10)
At 31 January 2022	68	13	81

AUTOMOBILE ASSOCIATION DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

35 PRIOR YEAR RESTATEMENTS (continued)

	Previously reported 31 January 2022 £m	Effect of restatement £m	Restated Balance £m
Vehicles and equipment – accumulated depreciation and impairment			
At 1 February 2021	41	-	41
Additions	22	-	22
Disposals	(22)	13	(9)
At 31 January 2022	41	13	54

36 EVENTS AFTER THE REPORTING PERIOD

Dividend Payment

The Company made a dividend payment to AA Corporation Limited of £4m on 28 April 2023.

A11 Loan Note Issue

On 6 February 2023 the AA Limited group issued £400m of Class A11 Notes at an interest rate of 8.45%. The proceeds of the issuance of the Class A11 Notes were used to redeem £308m of Class A7 Notes for a cash payment of £302m on 7 February 2023 tendered by existing note holders as part of a liability management exercise. The remaining surplus cash proceeds of £98m were transferred to a mandatory prepayment account to be held for redemption of Class A7 Notes. A further £10m of Class A7 Notes were purchased from existing bond holders on 3 March 2023 and redeemed. A further £103m of Class A7 Notes were voluntarily repaid on 16 May 2023 and redeemed.