

AA CORPORATION LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2019

Registered number: 03797747



AA CORPORATION LIMITED

FOR THE YEAR ENDED 31 JANUARY 2019

STRATEGIC REPORT

The directors present their annual report and financial statements of AA Corporation Limited ("the Company") for the year ended 31 January 2019.

PRINCIPAL ACTIVITIES, REVIEW OF THE BUSINESS, FUTURE DEVELOPMENTS AND KEY PERFORMANCE INDICATORS

The Company is a wholly owned subsidiary of AA Senior Co Limited.

The principal activity of the Company is the management of support activities on behalf of the AA plc group. These costs are subsequently recharged back to trading subsidiaries within the AA plc group. The key performance indicators of the Company are Trading EBITDA and costs.

As shown in the Company's income statement, the Company's turnover increased by 26.4% to £91.5m during the current year due to a higher recharge of costs. Trading EBITDA was £43.5m (2018: £32.5m), an increase of 33.8%. Profit before taxation of the Company for the year was £249.6m (2018: £320.7m) following the receipt of a £249.3m (2018: £314.8m) dividend from subsidiary undertakings and there was £1m (2018: £6.1m) forgiveness of an intercompany creditor.

The statement of financial position shows the Company's financial position at year end. Net assets increased to £1,762.2m (2018: £1,643.0m).

The directors are satisfied with the performance of the Company in the year. There are currently no plans to alter the principal activities of the Company going forward and the Company expects to continue to provide management of support activities on behalf of the AA plc group.

DIVIDENDS

The Company has paid a dividend of £129.4m in the year (2018: £214.8m).

RISK MANAGEMENT FRAMEWORK

The AA plc group has developed an embedded enterprise risk management process that facilitates the identification, assessment, escalation and mitigation of the Company's risk exposure across every aspect and activity of its business. This framework enables the Company to manage risk using predefined assessment criteria to ensure residual risk levels are in line with the AA plc Board's agreed risk appetite.

The Company has put in place rigorous procedures and controls designed to prevent significant risks to the business occurring or to mitigate their effects if they should occur. These controls are monitored by the Risk, Compliance and Internal Audit functions to ensure they are working effectively.

The principal risks and uncertainties facing the Company are considered to be:

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

Unable to grow the business in a manner that complements and sustains the brand - The Company is unable to develop and grow new profitable business products and lines that complement the customer experience and which demonstrate standards and values that underlie the core brand.

IT transformation is not completed successfully - An essential programme of renewal and enhancement of the IT estates is in progress to address the risks to the brand and competitive capability. The IT transformation is extensive and involves a continuing complex programme of work. Given the scale and complexity, the programme involves inherent risks to the timely delivery of this implementation.

AA CORPORATION LIMITED
FOR THE YEAR ENDED 31 JANUARY 2019
STRATEGIC REPORT

RISK MANAGEMENT FRAMEWORK (continued)

Unable to protect ourselves from a significant data breach, cyber security incident or failure of IT infrastructure - Critical information is not available where and when it is needed. The integrity of critical information is corrupted or the confidentiality of commercially sensitive, private or customer information is compromised by inappropriate disclosure. A serious data breach occurs.

Unable to manage our debt - The Company is unable to repay or refinance its debt at an acceptable price. The Company is an obligor of the financial indebtedness of the AA Intermediate Co Limited group, a parent undertaking of the Company and part of the AA plc group. Its viability and financial success is therefore tied to the viability and financial success of the AA Intermediate Co Limited group. No material uncertainties have been identified that would cast doubt over the financial success of the AA Intermediate Co Limited group.

Unable to meet our pension liabilities - The Company has a defined benefit pension scheme, which is currently in deficit, whose assets and obligations are subject to future variation from investment returns, longevity and other similar factors.

ON BEHALF OF THE BOARD



G Pritchard
DIRECTOR

28 June 2019
Registered Office:
Fanum House
Basing View
Basingstoke
Hampshire
RG21 4EA

AA CORPORATION LIMITED

FOR THE YEAR ENDED 31 JANUARY 2019

DIRECTORS' REPORT

DIRECTORS

The directors who were in office during the year and up to the date of signing the accounts, unless stated otherwise, were as follows:

M A Clarke	(resigned 29 April 2019)
G Pritchard	
S J Breakwell	
M W Strickland	(resigned 1 July 2018)
M F Millar	(resigned 17 April 2018)

COMPANY SECRETARY

M F Millar	(resigned 17 April 2018)
C M Free	(appointed 17 April 2018, resigned 30 January 2019)
N Hoosen	(appointed 30 January 2019)

DIRECTORS' INDEMNITY

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

AA CORPORATION 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.

GOING CONCERN

The Company's business activities and its exposure to financial risk are described in the strategic report on pages 1 and 2.

The Company is reliant on other group companies to pay for recharged costs. The directors believe that the Company has considerable financial resources due to the available cash resources of the AA plc group which can be drawn upon and the Company's own net asset position. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully using the risk management framework described in the Strategic Report and that the residual risks being accepted by the Company are commensurate with its financial resources.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

AUDITORS

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

ON BEHALF OF THE BOARD



G Pritchard
DIRECTOR

28 June 2019

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

Independent auditors' report to the members of AA Corporation Limited

Report on the audit of the financial statements

Opinion

In our opinion, AA Corporation Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 January 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 January 2019; the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

AA CORPORATION LIMITED

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

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

Strategic Report and Directors' Report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements set out on page 3, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Stuart Newman

Stuart Newman (Senior Statutory Auditor)

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

28 June 2019

AA CORPORATION LIMITED
INCOME STATEMENT
FOR THE YEAR ENDED 31 JANUARY

	Notes	2019 £m	2018 £m
REVENUE		91.5	72.4
OPERATING COSTS			
Administrative expenses		(90.4)	(71.9)
OPERATING PROFIT	3	1.1	0.5
Finance costs	8	(1.8)	(0.7)
Income from shares in group undertakings	9	250.3	320.9
PROFIT BEFORE TAX		249.6	320.7
Tax on profit	10	0.1	0.1
PROFIT FOR THE FINANCIAL YEAR		249.7	320.8

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

AA CORPORATION LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 JANUARY

	Notes	2019 £m	2018 £m
PROFIT FOR THE FINANCIAL YEAR		249.7	320.8
Other comprehensive (expense)/income on items that will not be reclassified to income statement in subsequent years			
Remeasurement on (losses)/gains on defined benefit schemes	19	(1.3)	3.9
Tax effect	11	0.2	(0.6)
TOTAL OTHER COMPREHENSIVE (EXPENSE)/INCOME		(1.1)	3.3
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		248.6	324.1

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

AA CORPORATION LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 JANUARY

	Notes	2019 £m	2018 £m
FIXED ASSETS			
Intangible assets	12	129.8	106.1
Property, plant and equipment	13	5.5	5.5
Deferred tax asset	11	2.9	2.1
Investments in subsidiaries	14	1,602.6	1,602.3
		<u>1,740.8</u>	<u>1,716.0</u>
CURRENT ASSETS			
Trade and other receivables	15	1,499.4	1,064.5
		<u>1,499.4</u>	<u>1,064.5</u>
TOTAL ASSETS		<u>3,240.2</u>	<u>2,780.5</u>
CURRENT LIABILITIES			
Provisions for liabilities	16	-	(0.7)
Trade and other payables	17	(1,462.0)	(1,119.4)
		<u>(1,462.0)</u>	<u>(1,120.1)</u>
NON-CURRENT LIABILITIES			
Deferred consideration	17	(9.6)	(11.1)
Defined benefit pension	19	(6.4)	(6.3)
		<u>(16.0)</u>	<u>(17.4)</u>
TOTAL LIABILITIES		<u>(1,478.0)</u>	<u>(1,137.5)</u>
NET ASSETS		<u>1,762.2</u>	<u>1,643.0</u>
EQUITY			
Ordinary shares	18	770.0	770.0
Retained earnings		992.2	873.0
TOTAL EQUITY		<u>1,762.2</u>	<u>1,643.0</u>

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



G Pritchard
DIRECTOR
28 JUNE 2019
AA Corporation Limited
Registered number: 03797747

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

AA CORPORATION LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 JANUARY 2019

	Share capital £m	Retained earnings £m	Total £m
At 1 February 2017	770.0	767.1	1,537.1
Profit for the year	-	320.8	320.8
Dividends paid	-	(214.8)	(214.8)
Forgiveness of intercompany balance	-	(3.1)	(3.1)
Other comprehensive income	-	3.0	3.0
At 31 January 2018	770.0	873.0	1,643.0
Profit for the year	-	249.7	249.7
Dividends paid	-	(129.4)	(129.4)
Other comprehensive expense	-	(1.1)	(1.1)
At 31 January 2019	770.0	992.2	1,762.2

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

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Presentation of financial statements

AA Corporation Limited is a private limited company and is incorporated and domiciled in England and Wales.

The Company has adequate financial resources due to the Company's own net current asset position. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

The financial statements are prepared in Sterling and are rounded to the nearest £100,000.

2 Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS101). The financial statements are prepared under the historical cost convention. The company takes the exemption under IFRS 10 paragraph 4 from presenting consolidated financial statements. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 January 2019.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- IAS 1 paragraphs 10(d) and 10(f),
- IAS 1 paragraph 16 (statement of compliance with all IFRS),
- IAS 1 paragraph 38A (requirement for minimum of two primary statements, including cash flow statements),
- IAS 1 paragraph 111 (cash flow statement information),
- IAS 1 paragraphs 134-136 (capital management disclosures),
- IAS 7 'Statement of cash flows',
- IAS 8 paragraphs 30 and 31 (accounting policies, changes in accounting estimates and errors),
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group,
- IAS 24 'Related party disclosures' (key management compensation).

NEW STANDARDS, AMENDMENTS AND IFRIC INTERPRETATIONS

IFRS 9 and IFRS 15 are new accounting standards that are effective for the year ended 31 January 2019 and have not had a material impact on the Company (see note 21). There are no other amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 January 2019 that have had a material impact on the Company.

2.2 Critical accounting estimates and judgements

Estimates are evaluated continually and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions about the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Management have exercised judgement in applying the Company's accounting policies and in making critical estimates. The underlying assumptions on which these judgements are based are reviewed on an ongoing basis. The principal estimates and assumptions that have a risk of causing an adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.2 Critical accounting estimates and judgements (continued)

Capitalisation of intangible assets

Management exercise judgement in the capitalisation of software development costs. This is carried out through assessment of expenditure against capitalisation criteria and exercising judgement in determining the useful economic life of assets within the parameters of the Company's accounting policies.

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 and pension costs. These assumptions may be different to the actual outcome.

Contingent consideration (see note 14)

The Company calculates contingent consideration based on the probability-weighted payout approach. This approach involves estimating future cash flow scenarios and using management judgement to assess the likelihood of each scenario.

2.3 Significant accounting policies

a) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Such costs include costs directly attributable to making the asset capable of operating as intended. Depreciation is provided on property, plant and equipment at rates calculated to write off the costs, less estimated residual value based on prices prevailing at date of acquisition of each asset evenly over its expected useful life as follows:

Vehicles and equipment	3 – 20 years
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The carrying value of tangible fixed assets is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

b) 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
- Its intention to complete and its ability to use 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.

c) Investments in group undertakings

Investments in group undertakings 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.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 Significant accounting policies (continued)

d) Revenue

Revenue represents amounts receivable for goods and services provided, excluding value added tax and trade discounts. Revenue is recognised on a point in time basis at the point of delivery of goods or on the provision of service, or over time where the service is provided over more than 1 day. This includes work which has not yet been fully invoiced, provided that it is considered to be fully recoverable. Revenue originates in the UK and consists of the recharge of costs to other AA plc group companies. Revenue by destination is not materially different from turnover by origin.

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

e) Provisions

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provision is made on a discounted basis where the time value of money is expected to be material.

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

f) Taxation

Tax 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 and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.

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.

g) Exceptional items

Exceptional items are events or transactions that fall within the 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.

h) 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 rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the 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.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 Significant accounting policies (continued)

The results of overseas operations are translated into sterling at average rates of exchange for the period. Exchange differences arising on the retranslation of the opening net assets of overseas operations are taken to the income statement.

i) 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 profit or loss.

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 profit or loss 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.

j) Financial assets and liabilities

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 and management determines the classification at initial recognition. 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 expected credit losses (ECLs) which uses a lifetime expected loss allowance for all trade receivables.

Trade and other payables

Trade and other payables are not interest bearing and are recognised at fair value and are subsequently held at amortised cost using the effective interest method.

The Company has no financial assets or liabilities measured at fair value through other comprehensive income or fair value through profit and loss.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 OPERATING PROFIT

Operating profit is stated after charging:

	2019 £m	2018 £m
Impairment	4.9	-
Amortisation of owned intangible assets	26.5	21.7
Depreciation of owned tangible fixed assets	3.6	5.0

Auditors' remuneration in respect of the audit of the Company's financial statements for the year ended 31 January 2019 amounted to £47,000 (2018: £94,000). The Company's auditor provided no services to the Company other than the annual audit during either the current or prior year.

4 ADJUSTED PERFORMANCE MEASURES

These financial statements report results and performance both on a statutory and non-GAAP (non-statutory) basis. The Company's adjusted performance measure of Trading EBITDA is a non-GAAP (non-statutory) financial measure and is included in these financial statements as it is a key financial measure used by management to evaluate performance of business segments. The measure enables management to more easily and consistently track the underlying operational performance of the Company and its business segments.

Trading EBITDA is profit after tax on a continuing basis as reported, adjusted for depreciation, amortisation, exceptional operating items, pension service charge adjustments, net finance costs, contingent consideration remeasurement movements and tax expense.

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

Reconciliation of Trading EBITDA to operating profit

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

		for the year ended 31 January	
	Note (s)	2019 £m	2018 £m
Trading EBITDA		43.5	32.5
Contingent consideration remeasurement gain		1.5	-
Pension service charge adjustment		(0.4)	0.2
Amortisation and depreciation	12,13	(30.1)	(26.7)
Impairment	5	(4.9)	-
Exceptional operating items	5	(8.5)	(5.5)
Operating profit		1.1	0.5

Trading EBITDA excludes discontinued operations and the effects of significant items of income and expenditure which may have an impact on the quality of earnings, such as restructuring costs, legal expenses and impairments when the impairment is the result of an isolated, non-recurring event. It also excludes the effects of contingent consideration remeasurement gains or losses, defined benefit pension service charge adjustments, amortisation, depreciation and unrealised gains or losses on financial instruments.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

4 ADJUSTED PERFORMANCE MEASURES (continued)

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

5 EXCEPTIONAL OPERATING ITEMS

	2019 £m	2018 £m
Exceptional operating items	(8.5)	(5.5)
Impairment	(4.9)	-
	<u>(13.4)</u>	<u>(5.5)</u>

In the current year, the Company incurred £2.2m of exceptional operating items relating to conduct and regulatory, £4.4m business and IT transformation, £0.5m corporate transaction costs and £1.4m legal disputes.

In the prior year, the Company incurred £3.6m of exceptional operating items relating to the reorganisation of the business, £2.2m IT transformation and £0.3m income on clear-down of disposed business in the prior year.

6 EMPLOYEE COSTS

Employee costs during the year were as follows:

	2019 £m	2018 £m
Wages and salaries	20.1	22.6
Social security costs	2.9	2.4
Retirement benefit costs	2.5	1.8
	<u>25.5</u>	<u>26.8</u>

Employee costs relate to those recharged from Automobile Association Developments Limited, a group company. The average number of employees directly employed during the year was nil (2018: nil).

7 DIRECTORS' REMUNERATION

	2019 £m	2018 £m
Aggregate remuneration in respect of qualifying services		
Remuneration	2.7	1.8
Money purchase scheme contributions	0.1	-
	<u>2.8</u>	<u>1.8</u>

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

Remuneration	1.4	0.5
Money purchase scheme contributions	0.1	-
	<u>1.5</u>	<u>0.5</u>

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 DIRECTORS' REMUNERATION (continued)

The directors of the Company are also directors of the ultimate parent undertaking (AA plc) and/or fellow subsidiaries. These directors are remunerated by another company that is part of the AA plc group. 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 1 (2018: 2) director under a defined benefit scheme and 3 (2018: 2) directors under a money purchase scheme.

8 FINANCE COSTS

	2019 £m	2018 £m
Net finance expense on defined benefit pension scheme	0.1	0.3
Foreign Exchange (gain) / loss	(0.2)	0.4
Contingent consideration movements	1.9	-
	<u>1.8</u>	<u>0.7</u>

9 INCOME FROM SHARES IN GROUP UNDERTAKINGS

	2019 £m	2018 £m
Forgiveness of intercompany creditor	1.0	6.1
Dividends from subsidiary undertakings	<u>249.3</u>	<u>314.8</u>
	<u>250.3</u>	<u>320.9</u>

10 TAX ON PROFIT

The major components of the income tax credit are:

	2019 £m	2018 £m
Current tax:		
- Current tax on income in the year	0.1	(0.2)
- Adjustments in respect of prior periods	<u>0.4</u>	<u>-</u>
Total current tax	<u>0.5</u>	<u>(0.2)</u>
Deferred tax:		
- Origination and reversal of temporary differences	(0.2)	0.1
- Adjustments in respect of prior periods	<u>(0.4)</u>	<u>-</u>
	<u>(0.6)</u>	<u>0.1</u>
Total tax credit	<u>(0.1)</u>	<u>(0.1)</u>

The current tax credit represents payments for group losses. The difference between the total current corporation tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

10 TAX ON PROFIT (continued)

	2019 £m	2018 £m
Profit before tax	<u>249.6</u>	<u>320.7</u>
Tax at rate of 19.00% (2018: 19.16%)	47.4	61.4
Effects of:		
Expenses not deductible for tax purposes	0.4	-
Non-taxable dividend income	(47.4)	(60.3)
Non-taxable forgiveness of intercompany debt	(0.2)	(1.2)
Non-taxable disposal of subsidiary	(0.3)	-
Total tax credit	<u>(0.1)</u>	<u>(0.1)</u>

11 DEFERRED TAXATION

Deferred tax by type of temporary difference:

	Statement of financial position		Income statement	
	2019 £m	2018 £m	2019 £m	2018 £m
Decelerated capital allowances	2.4	1.9	(0.5)	0.1
Pension	1.1	1.1	0.2	0.1
Other short term temporary differences	(0.6)	(0.9)	(0.3)	(0.1)
Deferred tax asset	<u>2.9</u>	<u>2.1</u>	<u>(0.6)</u>	<u>0.1</u>
				£m
Deferred tax asset as at 1 February 2018				2.1
Tax credit recognised in the income statement				0.6
Tax credit in other comprehensive income				0.2
Deferred tax asset as at 31 January 2019				<u>2.9</u>

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

The UK corporation tax rate will reduce from 19% to 17% on 1 April 2020. These rates have been substantively enacted at the statement of financial position date and have therefore been included in the deferred tax calculations.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 INTANGIBLE ASSETS

	Software £m
Cost	
At 31 January 2017	144.0
Additions	43.3
At 31 January 2018	187.3
Additions	55.4
Disposals	(53.2)
At 31 January 2019	189.5
At 31 January 2017	59.5
Charge for the year	21.7
At 31 January 2018	81.2
Charge for year	26.5
Impairment	4.9
Elimination on disposals	(52.9)
At 31 January 2019	59.7
Net book value	
At 31 January 2019	129.8
At 31 January 2018	106.1

Within software is £46.0m (2018: £28.4m) which relates to assets under construction that are not being amortised. Software additions comprise £8.6m (2018: £9.3m) in relation to internally developed assets and £46.8m (2018: £34.1m) in respect of separately acquired assets.

13 PROPERTY, PLANT AND EQUIPMENT

	Equipment and vehicles £m
Cost	
At 31 January 2017	21.8
Additions	1.5
At 31 January 2018	23.3
Additions	3.6
Disposals	(13.6)
At 31 January 2019	13.3
Accumulated depreciation	
At 31 January 2017	12.8
Charge for year	5.0
At 31 January 2018	17.8
Charge for year	3.6
Elimination of disposals	(13.6)
At 31 January 2019	7.8
Net book value	
At 31 January 2019	5.5
At 31 January 2018	5.5

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

14 INVESTMENTS IN SUBSIDIARIES

Shares in subsidiary undertakings	£m
Cost	
At 31 January 2017	1,577.7
Additions	26.3
At 31 January 2018	1,604.0
Additions	0.3
At 31 January 2019	1,604.3
At 31 January 2017	1.7
Impairment	-
At 31 January 2018	1.7
Impairment	-
At 31 January 2019	1.7
Net book value at 31 January 2019	1,602.6
Net book value at 31 January 2018	1,602.3

In the prior year, the Company assumed control of Used Car Sites Limited (trading as AA Cars), a used car sales platform for a provisional consideration of £26.3m. A list of subsidiary undertakings is included in note 24.

On 1 March 2018, the Company completed the purchase of the entire share capital of Used Car Sites Limited. A payment of £12m was made to the former owners and £3m was paid into an escrow account and is payable to the former owners subject to certain conditions being met. This transaction left a remaining balance of £9.6m (2018: £11.1m) provisional deferred consideration which is due in more than one year based on the probability weighted pay-out approach. The range of potential contingent consideration was £nil-£21m which was factored into the assessment of goodwill arising on acquisition.

15 TRADE AND OTHER RECEIVABLES

	2019 £m	2018 £m
Trade debtors	0.6	1.3
Amounts owed by group undertakings	1,491.1	1,055.4
Other debtors	0.1	0.9
Prepayments	7.6	6.9
	1,499.4	1,064.5

Amounts owed by group undertakings are unsecured, are repayable on demand and bear no interest.

During the prior year, the Company forgave £3.1m of its intercompany receivable balance owed by its subsidiary undertakings AA Road Services Limited and Drakefield Group Limited. There are no similar transactions in the current year.

16 PROVISIONS FOR LIABILITIES

	Restructuring provision £m
At 1 February 2018	0.7
Charge for the year	(0.7)
At 31 January 2019	-

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

17 TRADE AND OTHER PAYABLES

	2019 £m	2018 £m
Amounts owed to group undertakings	1,440.5	1,088.6
Other taxation and social security	0.6	0.6
Deferred consideration	1.9	15.1
Other payables	9.2	7.3
Accruals	9.8	7.8
	<u>1,462.0</u>	<u>1,119.4</u>
Non-current		
Deferred consideration	9.6	11.1
	<u>9.6</u>	<u>11.1</u>

Amounts owed to group undertakings are unsecured, are repayable on demand and bear no interest.

During the current year, the Company was forgiven £1m of its intercompany payable balance due to a fellow subsidiary undertaking Drakefield Holdings Limited. During the prior year, the Company was forgiven £6.1m of its intercompany payable balance due to a fellow subsidiary undertaking AA Assistance Limited.

Current and non-current deferred consideration relates to the acquisition of Used Car Sites Limited (see note 14).

18 SHARE CAPITAL

	2019 £m	2018 £m
Allotted and fully paid		
1,100,010,982 (2018:1,100,010,982) ordinary shares of 70p each	<u>770.0</u>	<u>770.0</u>

As at 31 January 2019, the Company had distributable reserves of £992.2m (2018: £873.0m).

During the year, a dividend of 11.8p per share (2018: 19.5p) was paid to the parent entity, AA Senior Co Limited.

19 DEFINED BENEFIT PENSION

During the prior year, following the sale of AA Ireland Limited by the Company, the AA Ireland Pension Scheme (AAI) was transferred to the Company. The Company therefore now operates a defined benefit pension scheme, the AAI Pension Scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The AAI scheme is closed to new entrants and future accrual of benefits. The assets and liabilities of the AA Ireland Scheme are denominated in Euros.

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

The AAI scheme is subject to full actuarial valuations every three years using assumptions agreed between the Trustee of the scheme and the Company. The purpose of this valuation is to design a funding plan to ensure that the pension scheme has sufficient assets available to meet the future payment of benefits to scheme members.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

19 DEFINED BENEFIT PENSION (continued)

The valuation of liabilities for funding purposes differs to the valuation for accounting purposes, mainly due to the different assumptions used and changes in market conditions between different valuation dates. For funding valuation purposes, the assumptions used to value the liabilities are agreed between the Trustee and Company with the discount rate, for example, being based on a bond yield plus a margin based on the assumed rate of return on scheme assets. For accounting valuation purposes, the assumptions used to value the liabilities are determined in accordance with IAS19 with the discount rate, for example, being based on high quality (AA rated) corporate bonds.

The valuations have been based on a full assessment of the liabilities of the scheme which have been updated where appropriate to 31 January 2019 by independent qualified actuaries.

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

	2019 £m	2018 £m
Present value of the defined benefit obligation in respect of pension plans	(50.1)	(49.5)
Fair value of plan assets	43.7	43.2
Deficit	(6.4)	(6.3)

The slight increase in the deficit is primarily due to changes in financial assumptions reflecting the latest discount rates.

The last triennial valuation for the AAI scheme was as at 31 December 2016, the result of which was an increase in the net pension liability with the contribution level remaining the same. The Group made deficit reduction contributions of c. £2m in the year ended 31 January 2019 and will continue to make annual deficit reduction contributions, increasing with inflation, until December 2023 or until an alternative agreement is signed with the trustees. The next triennial valuation of the AAI scheme will take place as at 31 December 2019.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

19 DEFINED BENEFIT PENSION (continued)

	Assets £m	Liabilities £m	Income statement £m	Statement of comprehensive income £m
Balance at 1 February 2018	43.2	(49.5)	-	-
Interest on defined benefit scheme assets/(liabilities)	0.9	(1.0)	(0.1)	-
Administrative expenses	(0.2)	-	(0.2)	-
Amounts recognised in the income statement	0.7	(1.0)	(0.3)	-
Effect of changes in financial assumptions	-	(1.1)	-	(1.1)
Effect of changes in demographic expectations	-	-	-	-
Effect of experience adjustment	-	-	-	-
Foreign exchange gain	-	0.1	-	0.1
Return on plan assets excluding interest income	(0.3)	-	-	(0.3)
Amounts recognised in the statement of comprehensive income	(0.3)	(1.0)	-	(1.3)
Benefits paid from scheme assets	(1.4)	1.4	-	-
Deficit reduction employer contributions	1.5	-	-	-
Movements through cash	0.1	1.4	-	-
Balance at 31 January 2019	43.7	(50.1)	-	-

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

19 DEFINED BENEFIT PENSION (continued)

	Assets £m	Liabilities £m	Income statement £m	Statement of comprehensive income £m
Balance at 1 February 2017	42.0	(52.7)	-	-
Interest on defined benefit scheme assets / (liabilities)	0.8	(1.1)	(0.3)	-
Administrative expenses	(0.2)	-	(0.2)	-
Foreign exchange gain / (loss)	0.7	(1.0)	-	(0.3)
Amounts recognised in the income statement	1.3	(2.1)	(0.5)	(0.3)
Effect of changes in financial assumptions	-	(1.1)	-	(1.1)
Effect of changes in demographic expectations	-	1.8	-	1.8
Effect of experience adjustment	-	2.1	-	2.1
Return on plan assets excluding interest income	1.1	-	-	1.1
Amounts recognised in the statement of comprehensive income	1.1	2.8	-	3.9
Benefits paid from scheme assets	(2.5)	2.5	-	-
Deficit reduction contributions	1.3	-	-	-
Movements through cash	(1.2)	2.5	-	-
Balance at 31 January 2018	43.2	(49.5)	-	-

Fair value of plan assets

The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

The table below shows the AAI scheme assets split between those that have a quoted market price and those that are unquoted.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

19 DEFINED BENEFIT PENSION (continued)

The fair value of the AAI plan assets and the return on those assets were as follows:

	2019		2018	
	Assets with a quoted market price £m	Assets without a quoted market price £m	Assets with a quoted market price £m	Assets without a quoted market price £m
Equities	9.8	-	9.8	-
Bonds/swaps	17.3	-	14.6	-
Hedge funds	11.3	-	-	18.8
Property	-	5.2	-	-
Cash/net current assets	0.1	-	-	-
Total AAI scheme assets	38.5	5.2	24.4	18.8
Actual return on AAI plan assets	0.6		1.9	

Investment strategy

To diversify sources of return and risk, the AAI 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 whilst hedging against downward market moves.

The trustee's investment advisors 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.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

19 DEFINED BENEFIT PENSION (continued)

Pension plan assumptions

The principal actuarial assumptions were as follows:

%	2019 %	2018 %
Pensioner discount rate	1.3	1.6
Non-pensioner discount rate	2.1	2.3
Pensioner CPI	1.3	1.6
Non-pensioner CPI	1.3	1.6
Pensioner increase for deferred benefits	1.3	1.6

Mortality assumptions are set using standard tables based on scheme specific experience where available and an allowance for future improvements. For 2019, the assumptions used were in line with the SAPS (S2) series mortality tables (2018 – SAPS (S2) series) with future improvements in line with the CMI_2017 model with a 1.25% long-term rate of improvement (2018 – CMI_2016 model with a 1.5% long-term rate of improvement). The AAI scheme mortality assumptions are set using standard tables with scheme specific adjustments.

The scheme's overall assumptions are that an active male retiring in normal health currently aged 60 will live on average for a further 27 years (2018: 27 years) and an active female retiring in normal health currently aged 60 will live on average for a further 29 years (2018: 29 years).

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit liability by the amounts shown below:

	For the year ending 31 January 2019 £m
Increase of 0.25% in discount rate	(2.5)
Increase of 0.25% in Inflation rate	1.1
Increase of one year of life expectancy	1.7

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

The weighted average duration of the defined benefit obligation at 31 January 2019 is around 20 years.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

19 DEFINED BENEFIT PENSION (continued)

Pension scheme risks

The AAI 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 by regular reviews of the investment portfolios. In addition, under guidance from their investment advisers the Trustees monitor estimates of key risks on an ongoing basis such as those shown below. A number of measures are taken to mitigate these risks where possible.

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

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

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

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

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 GUARANTEES AND COMMITMENTS

At the year end, the Company had capital commitments of £11.1m (2018: £17.2m).

Cross company guarantees

The Company, together with others in the Group, is guarantor to the bank loans and bond debt of the AA Intermediate Co Limited group. At 31 January 2019, the principal outstanding on the AA Intermediate Co Limited group debt was £2,769.8m (2018: £2,769.8m).

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

21 NEW ACCOUNTING STANDARDS

The Company did not identify any new accounting standards coming into effect in the current year with a material impact on the financial statements.

A number of new accounting standards, amendments and interpretations have been issued and will be effective for years beginning after 1 February 2019, however the Company has not identified any with an expected material effect on the financial statements.

22 ULTIMATE PARENT UNDERTAKING AND ULTIMATE CONTROLLING PARTY

The Company is a wholly owned subsidiary of AA Senior Co Limited, a company registered in England and Wales.

The parent of the smallest group to consolidate these financial statements is AA Intermediate Co Limited whose registered office is Fanum House, Basing View, Basingstoke, RG21 4EA. The ultimate parent undertaking, which is also the parent of the largest group to consolidate these financial statements, is AA plc whose registered office is at Fanum House, Basing View, Basingstoke, RG21 4EA. Copies of the consolidated AA plc financial statements are available from the website www.theaapl.com/investors.

23 EVENTS AFTER THE REPORTING PERIOD

On 1 February 2019, the Company completed the purchase of the entire share capital of Prestige Motor Care Holdings Limited and its three wholly owned subsidiaries Prestige Fleet Servicing Limited, Prestige Car Servicing Limited and Prestige Motor Care Limited for cash consideration of £11.4m.

On 29 March 2019, the Company completed the sale of 51% of the share capital of AA Media Limited for cash consideration of £0.7m.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

24 SUBSIDIARY UNDERTAKINGS

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

The principal subsidiary undertakings of the Company at 31 January 2019 are:

Name	Country
AA Financial Services Limited ²	United Kingdom
AA Media Limited ^{1,2}	United Kingdom
AA The Driving School Agency Limited ²	United Kingdom
Automobile Association Developments Limited ^{1,2}	United Kingdom
Automobile Association Insurance Services Limited ^{1,2}	United Kingdom
Drivetech (UK) Limited ^{1,2}	United Kingdom
Intelligent Data Systems (UK) Limited ²	United Kingdom
AA Brand Management Limited ²	United Kingdom
The Automobile Association Limited ^{1,3}	Jersey
Used Car Sites Limited ^{1,2}	United Kingdom

¹ Directly held by AA Corporation Limited, all other subsidiaries are indirectly held.

² Company registered office: Fanum House, Basing View, Basingstoke, Hampshire, RG21 4EA, England.

³ Company registered office: 22 Greenville Street, St Helier, Jersey, JE4 8PX.

The other subsidiary undertakings of the Company at 31 January 2019 are:

Name	Country
A.A. Pensions Trustees Limited ²	United Kingdom
AA Pension Funding GP Limited ³	United Kingdom
AA Pension Funding LP ^{3,9}	United Kingdom
AA Garage Services Limited ²	United Kingdom
AA Underwriting Limited ²	United Kingdom
Automobile Association Holdings Limited ^{2,6}	United Kingdom
Automobile Association Insurance Services Holdings Limited ²	United Kingdom
Automobile Association Protection and Investment Planning Limited ²	United Kingdom
Automobile Association Services Limited ^{2,7}	United Kingdom
Automobile Association Underwriting Services Limited ²	United Kingdom
Drakefield Holdings Limited ^{2,8}	United Kingdom
Drakefield Insurance Services Limited ²	United Kingdom
Personal Insurance Mortgages and Savings Limited ²	United Kingdom
AA Ireland Pension Trustees DAC ^{1,4}	Ireland
Breakdown Assistance Services Limited ^{1,5}	United Kingdom
Breakdown Hero Limited ⁵	United Kingdom

¹ Directly held by AA Corporation Limited, all other subsidiaries are indirectly held.

² Company registered office: Fanum House, Basing View, Basingstoke, Hampshire, RG21 4EA, England.

³ Company registered office: 50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, Scotland.

⁴ Company registered office: 6th Floor, South Bank House, Barrow Street, Dublin 4, Ireland.

⁵ Company registered office: 90 Long Acre, London, WC2E 9RA.

⁶ Automobile Association Holdings Limited has ordinary and deferred redeemable non-voting special dividend shares.

⁷ Automobile Association Services Limited is limited by guarantee.

⁸ Drakefield Holdings Limited has A and B ordinary shares.

⁹ AA Pension Funding LP is a limited partnership.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

24 SUBSIDIARY UNDERTAKINGS (continued)

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
AA Law Limited (49% interest held)	England	Insurance services
Intelematics Europe Limited (32% interest held)	England	Roadside services

The associates of the Company 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