

AA CORPORATION LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2021

Registered number: 03797747

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AA CORPORATION LIMITED

FOR THE YEAR ENDED 31 JANUARY 2021

STRATEGIC REPORT

The directors present their annual report and audited financial statements of AA Corporation Limited ("the Company") for the year ended 31 January 2021.

PRINCIPAL ACTIVITY, 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 Limited group ("the Group"). These costs are subsequently recharged back to trading subsidiaries within the Group.

During the year, the Company completed an internal corporate simplification exercise to restructure its Prestige subsidiaries. The Company purchased Prestige Fleet Servicing Limited from Prestige Motor Care Holdings Limited for £11.4m. Following this restructure, the Company impaired its investment in Prestige Motor Care Holdings Limited by £11.4m. Prestige Car Servicing Limited was then dissolved and Prestige Motor Care Holdings Limited is in active proposal to strike off post year end.

The key performance indicators of the Company are Trading EBITDA and operating costs.

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

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

As shown in the Company's income statement, the Company's turnover increased by 4.2% to £113.3m during the current year due to higher administrative expenses resulting in a higher recharge of costs. Trading EBITDA was £41.6m (2020: £41.0m), an increase of 1.5%. Profit before taxation of the Company for the year was £244.4m (2020: £258.6m) following the receipt of £258.2m (2020: £239.5m) of dividends from subsidiary undertakings and income of £nil (2020: £12.9m) from the forgiveness of an intercompany creditor.

The statement of financial position shows the Company's financial position at year end. Net assets increased to £1,993.5m (2020: £1,881.4m).

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 Limited group.

The directors have had regard to the matters set out in section 172(1) (a) to (f) when performing their duty under section 172 of the Companies Act 2006. For details of how this is accomplished across the AA Limited group, refer to page 28 of AA Limited's Annual Report, with whom the Company shares common directorship and management structure.

AA CORPORATION LIMITED

FOR THE YEAR ENDED 31 JANUARY 2021

STRATEGIC REPORT (continued)

RISK MANAGEMENT FRAMEWORK

The AA Limited 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 Limited 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:

Financial risks

The Group's senior management oversees the management of financial risks, supported by the Group Treasury function. The Group 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.

The Company is an obligor of the financial indebtedness of the AA Intermediate Co Limited group which ringfences its debt within a whole business securitisation (WBS) structure. AA Intermediate Co Limited is a parent undertaking of the Company and part of the AA Limited group. The viability and financial success of the Company is therefore tied to the viability and financial success of the AA Intermediate Co Limited group. For more detail see note 1.

Unable to meet our pension liabilities

During the 2017 financial year and following the sale of the Irish business by the AA Limited group, the Company became the sponsor of the AA Ireland Pension Scheme (AAI). This is 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.

Investment objectives and risk limits are implemented through the investment management agreement in place with the scheme's investment manager and monitored by the trustees of the scheme through regular reviews of the investment portfolio. In addition, under guidance from their investment adviser, the trustees of the scheme monitor estimates of key risks on an ongoing basis.

ON BEHALF OF THE BOARD



M NEVILLE
DIRECTOR

11 June 2021

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

AA CORPORATION LIMITED

FOR THE YEAR ENDED 31 JANUARY 2021

DIRECTORS' REPORT

DIRECTORS

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

M Neville	
M W Strickland	(Resigned 13 February 2020)
K J Dangerfield	(Appointed 13 February 2020)

COMPANY SECRETARY

N Hoosen	(Resigned 31 May 2021)
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DIRECTORS' INDEMNITY

The Company maintains directors' and officers' liability insurance, which gives appropriate cover for any legal action brought against its directors and officers. The Company has also granted indemnities to its directors and officers against all losses and liabilities incurred in the discharge of their duties, to the extent permitted by law. This is a qualifying third-party indemnity provision and was in force throughout the financial year and at the date of approval of the financial statements.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

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 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.

AA CORPORATION LIMITED
FOR THE YEAR ENDED 31 JANUARY 2021
DIRECTORS' REPORT (continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS (continued)

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.

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, future developments and its exposure to financial risks are described in the business review and risk management framework sections on pages 1 and 2.

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

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

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

AA CORPORATION LIMITED
FOR THE YEAR ENDED 31 JANUARY 2021
DIRECTORS' REPORT (continued)

GOING CONCERN (continued)

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

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

DIVIDENDS

The directors recommended a payment of a dividend of £137.0m in the year (2020: £129.5m).

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.

ON BEHALF OF THE BOARD



M NEVILLE
DIRECTOR

11 June 2021

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 2021 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 2021; 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.

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Company's ability to continue as a going concern. The Company is an obligor of the AA Intermediate Co Limited group's borrowings and forms part of the corresponding debt security group for which the refinancing of the Class A5 Notes, due on 31 January 2022, is not committed at the date of issue of these financial statements. These conditions, along with the other matters explained in note 1 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.

AA CORPORATION LIMITED

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

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 January 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

AA CORPORATION LIMITED

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Stuart Newman

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

AA CORPORATION LIMITED
INCOME STATEMENT
FOR THE YEAR ENDED 31 JANUARY

	Note	2021 £m	2020 £m
REVENUE		113.3	108.7
Administrative expenses		(126.3)	(101.5)
OPERATING (LOSS)/PROFIT	3	(13.0)	7.2
Finance costs	6	(0.8)	(1.0)
Income from shares in group undertakings	7	258.2	252.4
PROFIT BEFORE TAX		244.4	258.6
Income tax credit/(expense)	8	1.2	(2.3)
PROFIT FOR THE FINANCIAL YEAR		245.6	256.3

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

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

	Note	2021 £m	2020 £m
PROFIT FOR THE FINANCIAL YEAR		245.6	256.3
Other comprehensive income/(expense) on items that will not be reclassified to income statement in subsequent years			
Remeasurement gains/(losses) on defined benefit pension schemes	18	4.2	(9.1)
Tax effect	11	(0.7)	1.5
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)		3.5	(7.6)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		249.1	248.7

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

AA CORPORATION LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 JANUARY

	Note	2021 £m	2020 £m
NON-CURRENT ASSETS			
Financial assets at amortised cost	9	3.5	3.5
Deferred tax assets	11	6.6	4.9
Intangible assets	12	117.4	124.8
Property, plant and equipment	13	4.3	3.9
Investment in joint venture	14	0.9	0.9
Investments in subsidiaries	14	1,607.0	1,607.0
		<u>1,739.7</u>	<u>1,745.0</u>
CURRENT ASSETS			
Trade and other receivables	15	940.3	856.5
		<u>940.3</u>	<u>856.5</u>
TOTAL ASSETS		<u>2,680.0</u>	<u>2,601.5</u>
CURRENT LIABILITIES			
Trade and other payables	16	(675.5)	(703.2)
Current tax payable		(1.6)	(3.1)
		<u>(677.1)</u>	<u>(706.3)</u>
NON-CURRENT LIABILITIES			
Defined benefit pension liability	18	(9.4)	(13.8)
		<u>(9.4)</u>	<u>(13.8)</u>
TOTAL LIABILITIES		<u>(686.5)</u>	<u>(720.1)</u>
NET ASSETS		<u>1,993.5</u>	<u>1,881.4</u>
EQUITY			
Called up share capital	17	770.0	770.0
Retained earnings		1,223.5	1,111.4
TOTAL EQUITY		<u>1,993.5</u>	<u>1,881.4</u>

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



M NEVILLE
DIRECTOR

11 June 2021

AA Corporation Limited
Registered number: 03797747

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

AA CORPORATION LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 JANUARY

	Share capital £m	Retained earnings £m	Total equity £m
At 1 February 2019	770.0	992.2	1,762.2
Profit for the year	-	256.3	256.3
Dividends paid	-	(129.5)	(129.5)
Other comprehensive expense	-	(7.6)	(7.6)
At 31 January 2020	770.0	1,111.4	1,881.4
Profit for the year	-	245.6	245.6
Dividends paid	-	(137.0)	(137.0)
Other comprehensive income	-	3.5	3.5
At 31 January 2021	770.0	1,223.5	1,993.5

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

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Presentation of financial statements

AA Corporation Limited is a private company limited by shares, incorporated and domiciled in England and Wales, UK.

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

Going Concern

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

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

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

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

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

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 under the historical cost convention and have been prepared in accordance with the Companies Act 2006 as applicable to companies using FRS 101. The Company takes the exemption under IFRS 10 paragraph 4 and section 400 of the Companies Act 2006 from presenting consolidated financial statements.

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 38 (comparative information in respect of Property, Plant and Equipment, and Intangible Assets),
- 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

The Company did not identify any new accounting standards coming into effect in the current year with an 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 2021, however the Company has not identified any with an expected impact on the financial statements.

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.

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.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 Accounting policies (continued)

2.2 Critical accounting estimates and judgements (continued)

Investments

The Group tests the investment balances for impairment annually. The recoverable amounts of the investments have been determined based on value in use calculations which require the use of estimates. Management has prepared discounted cash flow forecasts based on the latest strategic plan.

In performing its impairment testing on its investment in subsidiaries, the Company prepared a traditional value in use model as described in IAS 36 which was also used in prior years. This comprises an enterprise value model which deducts net debt as at 31 January 2021 and discounts estimates of future cash flows at a pre-tax rate reflecting the time value of money and the risk specific to these cash flows. IAS 36 considers that the appropriate discount rate for a value in use calculation should take into account weighted average cost of capital, incremental borrowing rate and other market borrowing rates in making such an estimate and the Company uses a discount rate calculated on this basis. Estimates of future cash flows do not include cash inflows or outflows from financing activities or income tax receipts or payments as these are already taken into account in the discount rate.

This differs from the AA Limited company financial statements in which it was considered that applying an alternative 'dividend distribution model' to apportion the accepted offer price on its share capital across its investments in subsidiaries would best reflect an investor's assessment of the return required given the specific industry and macroeconomic conditions and risks in existence at the year end and up to the date of approval of the AA Limited financial statements. In that alternative value in use model, estimates of future cash flows included cash outflows relating to taxation and financing activities, reflecting an assessment of future refinancing and interest costs that the Group expects to arise as its existing debt is refinanced over the next 5 years. The use of this alternative value in use model was a departure from the traditional value in use model described in IAS 36 which was used by AA Limited in prior years.

As the Company is a holding company within the WBS ringfence, it and its subsidiary investments do not experience the same risks as experienced at the level of AA Limited's investment in AA Mid Co Limited, in particular the risks of refinancing the Group's Class B2 Notes, for which the Company sits inside the security ringfence. The alternative value in use valuation approach used at an AA Limited level is therefore not considered to be an appropriate valuation methodology for the Company to use in its own investment impairment testing.

On this basis, the Company has made the critical accounting judgement to continue to perform impairment testing of its investment in subsidiaries using the traditional enterprise value model which deducts net debt, as outlined above.

Management has performed sensitivity analysis as part of its impairment assessment on the Company's investments in subsidiaries (see note 14 for details).

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 Accounting policies (continued)

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:

Equipment and vehicles	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.

d) Revenue

Revenue represents the recharge of costs to other AA Limited group companies. Revenue is recognised as the costs are incurred and recharged and is therefore recognised over time. Revenue originates in the UK and revenue by destination is not materially different from revenue by origin.

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.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 Accounting policies (continued)

2.3 Significant accounting policies (continued)

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) Adjusting operating items

Adjusting operating 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.

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.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 Accounting policies (continued)

2.3 Significant accounting policies (continued)

i) Retirement benefit obligation (continued)

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 (LOSS)/PROFIT

Operating (loss)/profit is stated after charging:

	2021 £m	2020 £m
Amortisation of owned intangible assets	39.7	34.8
Depreciation of owned tangible fixed assets	2.1	2.3

Auditors' remuneration in respect of the audit of the Company's financial statements for the year ended 31 January 2021 amounted to £33,000 (2020: £30,000). The Company's auditors 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, adjusting operating items, pension service (charge)/credit adjustments, net finance costs, contingent consideration remeasurement movements and tax expense.

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

Reconciliation of Trading EBITDA to operating (loss)/profit

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

		for the year ended 31 January	
	Note(s)	2021 £m	2020 £m
Trading EBITDA		41.6	41.0
Contingent consideration remeasurement gain		-	8.9
Pension service (charge)/credit adjustment		(0.3)	0.7
Amortisation and depreciation	12, 13	(41.8)	(37.1)
Adjusting operating items	5	(12.5)	(6.3)
Operating (loss)/profit		(13.0)	7.2

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 Limited group's debt documents and is used for calculating debt covenants. Given the significance of the AA Limited group debt, Trading EBITDA is therefore a key measure for management, enabling them to more easily and consistently track the underlying operational performance of the Company and its business segments.

5 ADJUSTING OPERATING ITEMS

	2021 £m	2020 £m
Strategic review projects	1.5	-
Closure costs of the CARE section of the AAUK pension scheme and the transitional agreement made with employees in that scheme	4.7	-
Emergency IT expenditure incurred setting up home working due to the COVID-19 pandemic	3.8	-
Government furlough support in respect of COVID-19	(2.5)	-
Impairment of investment in subsidiary undertaking	11.4	-
Corporate recharge	(6.8)	-
Other adjusting operating items	0.4	6.3
	<u>12.5</u>	<u>6.3</u>

In the current year, other adjusting operating items comprised a £0.4m loss on the disposal of non-current assets.

In the prior year, the Company's adjusting operating items related to £0.1m of legal disputes and a £6.2m loss on the disposal of 51% of AA Media Limited (see also note 14).

6 FINANCE COSTS

	2021 £m	2020 £m
Net finance expense on defined benefit pension scheme	0.1	0.1
Foreign exchange loss	0.7	0.3
Contingent consideration movements	-	0.6
	<u>0.8</u>	<u>1.0</u>

7 INCOME FROM SHARES IN GROUP UNDERTAKINGS

	2021 £m	2020 £m
Forgiveness of intercompany creditor	-	12.9
Dividends from subsidiary undertakings	258.2	239.5
	<u>258.2</u>	<u>252.4</u>

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

8 INCOME TAX (CREDIT)/EXPENSE

The major components of the income tax (credit)/expense are:

	2021 £m	2020 £m
Current tax:		
- Current tax on income in the year	1.6	2.7
- Adjustments in respect of prior periods	(0.4)	0.1
	<u>1.2</u>	<u>2.8</u>
Deferred tax:		
- Origination and reversal of temporary differences	(1.8)	(0.7)
- Effect of tax rate change on opening balances	(0.6)	-
- Adjustments in respect of prior periods	-	0.2
	<u>(2.4)</u>	<u>(0.5)</u>
Total income tax (credit)/expense	<u>(1.2)</u>	<u>2.3</u>

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:

	2021 £m	2020 £m
Profit before tax	<u>244.4</u>	<u>258.6</u>
Tax at rate of 19.0% (2020: 19.0%)	46.4	49.1
Effects of:		
Adjustments in respect of prior periods	(0.4)	0.3
Expenses not deductible for tax purposes	0.3	0.5
Rate change difference	(0.6)	-
Non-taxable dividend income	(49.1)	(45.5)
Non-taxable forgiveness of intercompany debt	-	(2.4)
Non-taxable disposal of subsidiary	2.2	0.3
Total income tax (credit)/expense	<u>(1.2)</u>	<u>2.3</u>

9 FINANCIAL ASSETS AT AMORTISED COST

	2021 £m	2020 £m
Loans to related parties	3.5	3.5

Loans to related parties comprise £3.5m of 5% fixed rate loan notes issued from AA Media Limited to the Company, redeemable at par on 29 March 2024. The Company has recognised this receivable from a related party as a financial asset at amortised cost.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

10 EMPLOYEE COSTS

Employee costs during the year were as follows:

	2021 £m	2020 £m
Wages and salaries	33.6	27.4
Social security costs	3.7	3.3
Other pension costs	4.1	2.6
	<u>41.4</u>	<u>33.3</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 (2020: nil).

11 DEFERRED TAX ASSETS

Deferred tax by type of temporary difference:

	Statement of financial position		Income statement	
	2021 £m	2020 £m	2021 £m	2020 £m
Decelerated capital allowances	5.3	3.2	(2.1)	(0.8)
Pension	1.8	2.3	(0.2)	0.3
Other short-term temporary differences	(0.5)	(0.6)	(0.1)	-
Deferred tax asset	<u>6.6</u>	<u>4.9</u>	<u>(2.4)</u>	<u>(0.5)</u>

	2021 £m	2020 £m
Deferred tax asset as at 1 February	4.9	2.9
Tax credit recognised in the income statement	2.4	0.5
Tax (expense)/credit in other comprehensive income	(0.7)	1.5
Deferred tax asset as at 31 January	<u>6.6</u>	<u>4.9</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 March 2020 budget announced that the expected reduction in tax rate to 17% would be cancelled and the 19% rate retained after 1 April 2020. The effect of cancelling the tax rate reduction did not have a material impact on the Company's deferred tax balance. The March 2021 budget announced that the main corporation tax rate will increase to 25% in April 2023. The increased rate will not impact on the Company's current tax for the year ending 31 January 2022. As this new rate is expected to be enacted later in 2021 an assessment will be made on the carrying value of the Company's deferred tax balance, depending on the expected timing of reversals, for the year ending 31 January 2022.

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

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 INTANGIBLE ASSETS

	Software £m
Cost	
At 1 February 2020	219.3
Additions	33.5
Reclassification	(1.2)
Transfer from other Group companies	0.2
Disposals	(31.6)
At 31 January 2021	220.2
Accumulated amortisation	
At 1 February 2020	94.5
Charge for year	39.7
Reclassification	(0.3)
Disposals	(31.1)
At 31 January 2021	102.8
Net book value	
At 31 January 2021	117.4
At 31 January 2020	124.8

Within software is £6.3m (2020: £12.6m) which relates to assets under construction that are not being amortised. Software additions comprise £6.3m (2020: £5.5m) in relation to internally developed assets and £27.2m (2020: £24.3m) in respect of separately acquired assets.

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

13 PROPERTY, PLANT AND EQUIPMENT

	Equipment and vehicles £m
Cost	
At 1 February 2020	14.0
Additions	1.7
Reclassification	1.2
Disposals	(8.0)
At 31 January 2021	8.9
Accumulated depreciation	
At 1 February 2020	10.1
Charge for year	2.1
Reclassification	0.3
Disposals	(7.9)
At 31 January 2021	4.6
Net book value	
At 31 January 2021	4.3
At 31 January 2020	3.9

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

14 INVESTMENTS IN GROUP UNDERTAKINGS

	Investments in subsidiaries £m	Investment in joint venture £m
Cost		
At 1 February 2020	1,608.7	0.9
Additions	11.4	-
As at 31 January 2021	1,620.1	0.9
Impairment		
At 1 February 2020	1.7	-
Impairment	11.4	-
As at 31 January 2021	13.1	-
Net book value		
At 31 January 2021	1,607.0	0.9
At 31 January 2020	1,607.0	0.9

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.

In March 2019, Prestige Motor Care Limited was dissolved.

During the current year, the Company completed an internal corporate simplification exercise to restructure three of its subsidiaries, Prestige Motor Care Holdings Limited, Prestige Fleet Servicing Limited and Prestige Car Servicing Limited. Following this restructure, Prestige Car Servicing Limited was then dissolved and Prestige Motor Care Holdings Limited is in active proposal to strike off post year end.

On 29 March 2019, the Company completed the sale of 51% of the share capital of AA Media Limited. This was subsequently recognised as an investment in a joint venture.

On 1 March 2018, the Company completed the purchase of the entire share capital of Used Car Sites Limited. During the prior year, £2m deferred consideration was paid and the remaining value of the deferred consideration was settled at £1m resulting in a £8.9m contingent consideration remeasurement gain being recognised in operating profit (see note 4).

The Company has performed impairment testing at 31 January 2021 to compare the recoverable amount of the investments in subsidiaries to their carrying value.

The impairment test was performed on the Company's directly held subsidiaries supported by their cash flow projections. The recoverable amount of the investments was determined based on a value in use calculation using cash flow projections from the Group's five-year plan. For the year ended 31 January 2021, the Company used the five-year plan covering the four years up to 31 January 2025 and a 2.0% expectation of growth in the subsequent year. For the purposes of the impairment test, terminal values have been calculated using a 2.0% (2020: 2.0%) inflationary growth assumption in perpetuity based on the IMF's UK long-term growth rate.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

14 INVESTMENTS IN GROUP UNDERTAKINGS (continued)

Using an enterprise value model which deducts net debt as at 31 January 2021, cash flows were discounted at a pre-tax rate reflecting the time value of money and the risk specific to these cash flows. This was determined as a pre-tax rate of 7.7% (2020: 8.9%). The equivalent post-tax rate was 7.0% (2020: 8.0%). The use of this value in use calculation and the determination of its inputs were consistent with the impairment test performed in the prior year. The result of this impairment test was that there was a significant amount of headroom and therefore no indicators of impairment in the value of investments in subsidiaries were identified (2020: no indicators of impairment).

The value in use calculation used is the most sensitive to the assumptions used for growth and to the discount rate. Changes to these assumptions would impact the value of the headroom calculated. However, neither a 1% increase in the discount rate in the current year nor a 1% reduction in the terminal value growth rate would result in an impairment in the current year. In any case, management believes that neither of these scenarios reflect the most likely true outcome and accordingly, no impairment has been recognised in the current year.

15 TRADE AND OTHER RECEIVABLES

	2021 £m	2020 £m
Trade receivables	0.2	0.3
Amounts owed by group undertakings	926.7	847.1
Other receivables	1.9	0.6
Prepayments	11.5	8.5
	<u>940.3</u>	<u>856.5</u>

Amounts owed by group undertakings are unsecured, have no repayment terms and bear no interest.

16 TRADE AND OTHER PAYABLES

	2021 £m	2020 £m
Amounts owed to group undertakings	641.7	677.5
Other taxation and social security	1.1	0.9
Deferred consideration payable	-	1.2
Other payables	10.4	9.0
Accruals	22.3	14.6
	<u>675.5</u>	<u>703.2</u>

Amounts owed to group undertakings are unsecured, have no repayment terms and bear no interest.

Prior year deferred consideration payable of £1.2m related to the acquisition of Used Car Sites Limited (AA Cars) and was paid during the current year.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

17 CALLED UP SHARE CAPITAL

	2021 £m	2020 £m
Allotted and fully paid		
1,100,010,982 (2020: 1,100,010,982) ordinary shares of 70p each	770.0	770.0

During the year, a dividend of 12.5p per share (2020: 11.8p) was paid to the parent entity, AA Senior Co Limited.

In the year ended 31 January 2021, the Company paid a dividend of £137.0m (2020: £129.5m).

18 DEFINED BENEFIT PENSION

During the 2017 financial year and 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.

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 2021 by independent qualified actuaries.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

18 DEFINED BENEFIT PENSION (continued)

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

	2021 £m	2020 £m
Present value of the defined benefit obligation in respect of pension plans	(59.9)	(61.6)
Fair value of plan assets	50.5	47.8
Deficit	(9.4)	(13.8)

The actuarial triennial review as at 31 December 2019 for the AAI pension scheme was completed during September 2020. This resulted in a reduction to the funding deficit of 50% from c. £8m as at 31 December 2016 to c. £4m as at 31 December 2019. The Company made deficit reduction contributions of £1m in the year ended 31 January 2021 and will continue to make annual deficit reduction contributions, increasing with inflation, until December 2024 (an extension of one year over the previous agreement) or until an alternative agreement is signed with the AAI scheme trustee.

	Assets £m	Liabilities £m	Income statement £m	Statement of comprehensiv e income £m
Balance at 1 February 2020	47.8	(61.6)	-	-
Interest on defined benefit scheme assets/(liabilities)	0.3	(0.4)	(0.1)	-
Administrative expenses	(0.2)	-	(0.2)	-
Amounts recognised in the income statement	0.1	(0.4)	(0.3)	-
Effect of changes in demographic assumptions	-	(0.1)	-	(0.1)
Effect of changes in financial assumptions	-	(1.5)	-	(1.5)
Effect of experience adjustment	-	4.7	-	4.7
Return on plan assets excluding interest income	1.1	-	-	1.1
Amounts recognised in the statement of comprehensive income	1.1	3.1	-	4.2
Foreign exchange gain/(loss)	2.4	(3.3)	(0.9)	-
Benefits paid from scheme assets	(2.3)	2.3	-	-
Deficit reduction employer contributions	1.4	-	-	-
Movements through cash	(0.9)	2.3	-	-
Balance at 31 January 2021	50.5	(59.9)	-	-

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

18 DEFINED BENEFIT PENSION (continued)

	Assets £m	Liabilities £m	Income statement £m	Statement of comprehensive income £m
Balance at 1 February 2019	43.7	(50.1)	-	-
Interest on defined benefit scheme assets/(liabilities)	0.7	(0.8)	(0.1)	-
Administrative expenses	(0.2)	-	(0.2)	-
Amounts recognised in the income statement	0.5	(0.8)	(0.3)	-
Effect of changes in financial assumptions	-	(14.4)	-	(14.4)
Return on plan assets excluding interest income	5.3	-	-	5.3
Amounts recognised in the statement of comprehensive income	5.3	(14.4)	-	(9.1)
Foreign exchange (loss)/gain	(1.6)	2.2	0.6	-
Benefits paid from scheme assets	(1.5)	1.5	-	-
Deficit reduction employer contributions	1.4	-	-	-
Movements through cash	(0.1)	1.5	-	-
Balance at 31 January 2020	47.8	(61.6)	-	-

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.

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

	2021		2020	
	Assets with a quoted market price £m	Assets without a quoted market price £m	Assets with a quoted market price £m	Assets without a quoted market price £m
Equities	12.0	-	11.4	-
Bonds/swaps	24.8	-	22.0	-
Hedge funds	7.6	-	8.7	-
Property	-	5.8	-	5.6
Cash/net current assets	0.3	-	0.1	-
Total AAI scheme assets	44.7	5.8	42.2	5.6
Actual return on AAI plan assets	1.4		6.0	

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

18 DEFINED BENEFIT PENSION (continued)

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.

Pension plan assumptions

The principal actuarial assumptions were as follows:

%	2021 %	2020 %
Pensioner discount rate	0.4	0.3
Non-pensioner discount rate	0.7	0.8
Pensioner CPI	1.2	1.2
Non-pensioner CPI	1.2	1.2
Pension increase for deferred benefits	1.2	1.2

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

The AA schemes' overall assumptions are that an active male retiring in normal health currently aged 60 will live on average for a further 25 years (2020: 25 years) and an active female retiring in normal health currently aged 60 will live on average for a further 28 years (2020: 28 years).

Sensitivity analysis

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

	For the year ending 31 January 2021 £m
Increase of 0.25% in discount rate	3.1
Increase of 0.25% in RPI and CPI	(1.3)
Increase of 0.25% in CPI only	(1.3)
Increase of one year of life expectancy	(2.3)

An equivalent decrease in the assumptions at 31 January 2021 would have had a broadly equal but opposite effect on the amounts shown above, on the basis that all other variables remain constant.

The weighted average duration of the defined benefit obligation at 31 January 2021 is around 20 years.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

18 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)

19 DIRECTORS' REMUNERATION

	2021 £m	2020 £m
Aggregate remuneration in respect of qualifying services		
Remuneration	0.8	1.3
Money purchase scheme contributions	0.1	0.1
Compensation for loss of office	0.2	-
	<u>1.1</u>	<u>1.4</u>

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

Remuneration	0.7	0.8
Contributions to money purchase schemes	-	-
	<u>0.7</u>	<u>0.8</u>

The directors of the Company are also directors of the ultimate parent undertaking (AA Limited) and/or fellow subsidiaries. These directors are remunerated by another company that is part of the AA Limited 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 no (2020:1) directors under a defined benefit scheme and 2 (2020: 1) directors under a money purchase scheme.

20 GUARANTEES AND COMMITMENTS

At the year end, the Company had capital commitments of £2.4m (2020: £6.2m).

Cross company guarantees

The Company is an obligor to the bank loans and bond debt of the AA Intermediate Co Limited group. At 31 January 2021, the principal outstanding on the AA Intermediate Co Limited group debt was £2,766.7m (2020: £2,767.0m).

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

21 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, UK.

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, Hampshire, RG21 4EA. At 31 January 2021, the ultimate controlling party and parent undertaking, which is also the parent of the largest group to consolidate these financial statements, was AA Limited (see note 23) whose registered office is at Fanum House, Basing View, Basingstoke, Hampshire, RG21 4EA.

Copies of the consolidated parent financial statements are available from the website <https://www.theaacorporate.com/investors>.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

22 SUBSIDIARY UNDERTAKINGS

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

The principal subsidiary undertakings of the Company at 31 January 2021 are:

Name	Country of Incorporation / Registered Office Key	Class of shares held
AA Financial Services Limited	England and Wales, UK / A	Ordinary
AA The Driving School Agency Limited	England and Wales, UK / A	Ordinary
Automobile Association Developments Limited ¹	England and Wales, UK / A	Ordinary
Automobile Association Insurance Services Limited ¹	England and Wales, UK / A	Ordinary
Drivetech (UK) Limited ¹	England and Wales, UK / A	Ordinary
Intelligent Data Systems (UK) Limited	England and Wales, UK / A	Ordinary
AA Brand Management Limited ¹	England and Wales, UK / A	Ordinary
The Automobile Association Limited ^{1,2}	Jersey / B	Ordinary
Used Car Sites Limited ¹	England and Wales, UK / A	Ordinary
Prestige Fleet Servicing Limited	England and Wales, UK / A	Ordinary

The other subsidiary undertakings of the Company at 31 January 2021 are:

Name	Country of Incorporation / Registered Office Key	Class of shares held
A.A. Pensions Trustees Limited	England and Wales, UK / A	Ordinary
AA Pension Funding GP Limited	Scotland, UK / D	Ordinary
AA Pension Funding LP ⁴	Scotland, UK / D	Membership Interest
AA Garage Services Limited	England and Wales, UK / A	Ordinary
Automobile Association Holdings Limited	England and Wales, UK / A	Ordinary and Deferred redeemable non-voting special dividend
Automobile Association Insurance Services Holdings Limited	England and Wales, UK / A	Ordinary
Automobile Association Services Limited	England and Wales, UK / A	Limited by guarantee
Personal Insurance Mortgages and Savings Limited	England and Wales, UK / A	Ordinary
AA Ireland Pension Trustees DAC ¹	Ireland / D	Ordinary
Accident Assistance Services Limited	England and Wales, UK / A	Ordinary
Prestige Motor Care Holdings Limited ³	England and Wales, UK / A	Ordinary

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

² This Company also has a UK branch establishment.

³ Prestige Motor Care Holdings Limited is in active proposal to strike off.

⁴ This partnership is fully consolidated into the Group financial statements and the Group has 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.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

22 SUBSIDIARY UNDERTAKINGS (continued)

Registered Office Key

Registered Office	Key
Fanum House, Basing View, Basingstoke, Hampshire, RG21 4EA, England	A
22 Greenville Street, St Helier, Jersey, JE4 8PX	B
50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, Scotland	C
6th Floor, South Bank House, Barrow Street, Dublin 4, Ireland	D

Joint Ventures

The joint ventures of the Company which are 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 Media Limited (49% interest held) ¹	England and Wales, UK	Publishing
AA Law Limited (49% interest held) ²	England and Wales, UK	Insurance services
Drvn Solutions Limited (48% interest held) ^{2,3}	England and Wales, UK	Roadside services

¹ Directly held.

² Indirectly held.

³ Intelomatics Europe Limited changed its name to Drvn Solutions Limited on 10 June 2020. Drvn Solutions Limited has A and B ordinary shares. The Group increased its shareholding in Drvn Solutions Limited from 32% to 48% on 29 April 2020.

Associates

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) ¹	Belgium	Roadside services

¹ Indirectly held.

23 EVENTS AFTER THE REPORTING PERIOD

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