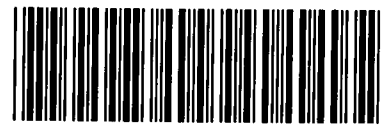


AA CORPORATION LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2020

Registered number: 03797747

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AA CORPORATION LIMITED
FOR THE YEAR ENDED 31 JANUARY 2020
STRATEGIC REPORT

The directors present their annual report and financial statements of AA Corporation Limited ("the Company") for the year ended 31 January 2020.

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 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 operating costs.

The outbreak of COVID-19 has resulted in a pandemic causing significant disruption across the globe. The impact on society is reflected in business closures, restrictions on movement, home working and cancellations of sporting and other events. This is expected to lead to an economic downturn.

The recent volatility in financial markets is being monitored by management who have assessed that the Company remains in a robust position to continue to perform its primary activity. The impact of COVID-19 is continuing to evolve at a fast pace but we do not expect there to be any material financial impact on the Company at the time of writing.

As shown in the Company's income statement, the Company's turnover increased by 18.8% to £108.7m during the current year due to a higher recharge of costs. Trading EBITDA was £41.0m (2019: £43.5m), a decrease of 5.7%. Profit before taxation of the Company for the year was £258.6m (2019: £249.6m) following the receipt of a £239.5m (2019: £249.3m) dividend from subsidiary undertakings and income of £12.9m (2019: £1m) 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 £1,881.4m (2019: £1,762.2m).

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.

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 plc group, refer to page 25 of AA plc's Annual Report, with whom the Company shares common directorship and management structure.

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.

AA CORPORATION LIMITED
FOR THE YEAR ENDED 31 JANUARY 2020
STRATEGIC REPORT (continued)

RISK MANAGEMENT FRAMEWORK (continued)

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

AA Intermediate Co Limited group unable to manage its debt

The AA Intermediate Co Limited group 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

During the 2017 financial year and following the sale of the Irish business by the AA plc 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

25 JUNE 2020

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

AA CORPORATION LIMITED
FOR THE YEAR ENDED 31 JANUARY 2020
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 A Clarke	(resigned 29 April 2019)
M Neville	(appointed 25 July 2019)
M W Strickland	(appointed 25 July 2019, resigned 13 February 2020)
G Pritchard	(resigned 1 August 2019)
S J Breakwell	(resigned 1 August 2019)
K J Dangerfield	(appointed 13 February 2020)

COMPANY SECRETARY

N Hoosen

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. 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 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
FOR THE YEAR ENDED 31 JANUARY 2020
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 directors are 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 directors 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 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.

DIVIDENDS

The directors recommended a payment of a dividend of £129.5m in the year (2019: £129.4m).

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

25 JUNE 2020

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

AA CORPORATION LIMITED

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 2020 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 2020; 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

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- 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.

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.

Reporting on other information

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

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

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

Based on 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.

AA CORPORATION LIMITED

Independent auditors' report to the members of AA Corporation Limited (continued)

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 2020 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
26 June 2020

AA CORPORATION LIMITED
INCOME STATEMENT
FOR THE YEAR ENDED 31 JANUARY

	Note	2020 £m	2019 £m
REVENUE		108.7	91.5
OPERATING COSTS			
Administrative expenses		(101.5)	(90.4)
OPERATING PROFIT	3	7.2	1.1
Finance costs	6	(1.0)	(1.8)
Income from shares in group undertakings	7	252.4	250.3
PROFIT BEFORE TAX		258.6	249.6
Tax on profit	8	(2.3)	0.1
PROFIT FOR THE FINANCIAL YEAR		256.3	249.7

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	2020 £m	2019 £m
PROFIT FOR THE FINANCIAL YEAR		256.3	249.7
Other comprehensive expense on items that will not be reclassified to income statement in subsequent years			
Remeasurement on losses on defined benefit schemes	18	(9.1)	(1.3)
Tax effect	11	1.5	0.2
TOTAL OTHER COMPREHENSIVE EXPENSE		(7.6)	(1.1)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		248.7	248.6

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	2020 £m	2019 £m
NON-CURRENT ASSETS			
Financial assets at amortised cost	9	3.5	-
Deferred tax assets	11	4.9	2.9
Intangible assets	12	124.8	129.8
Property, plant and equipment	13	3.9	5.5
Investment in joint ventures	14	0.9	-
Investments in subsidiaries	14	1,607.0	1,602.6
		<u>1,745.0</u>	<u>1,740.8</u>
CURRENT ASSETS			
Trade and other receivables	15	856.5	1,499.4
		<u>856.5</u>	<u>1,499.4</u>
TOTAL ASSETS		<u>2,601.5</u>	<u>3,240.2</u>
CURRENT LIABILITIES			
Trade and other payables	16	(703.2)	(1,461.8)
Current tax payable		(3.1)	(0.2)
		<u>(706.3)</u>	<u>(1,462.0)</u>
NON-CURRENT LIABILITIES			
Deferred consideration	16	-	(9.6)
Defined benefit pension	18	(13.8)	(6.4)
		<u>(13.8)</u>	<u>(16.0)</u>
TOTAL LIABILITIES		<u>(720.1)</u>	<u>(1,478.0)</u>
NET ASSETS		<u>1,881.4</u>	<u>1,762.2</u>
EQUITY			
Called up share capital	17	770.0	770.0
Retained earnings		1,111.4	992.2
TOTAL EQUITY		<u>1,881.4</u>	<u>1,762.2</u>

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



M NEVILLE
DIRECTOR
25 JUNE 2020

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 2020

	Share capital £m	Retained earnings £m	Total £m
At 1 February 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
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

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 limited company and is incorporated and domiciled in the UK.

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 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 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 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 2020, however the Company has not identified any with an expected material effect 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.

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.

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 2020 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 plc company financial statements in which it was considered that applying an alternative 'dividend distribution model' 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 plc financial statements. In that alternative value in use model, estimates of future cash flows were discounted at a 5-year average cost of equity of 17.0%. Cash flows included income tax receipts and payments and cash inflows and outflows from 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 plc 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 plc'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 plc 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).

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (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:

Vehicles and equipment	3 – 20 years
------------------------	--------------

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 plc 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 turnover 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)

2.3 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.

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.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 Significant accounting policies (continued)

i) Retirement benefit obligation (continued)

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in 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.

3 OPERATING PROFIT

Operating profit is stated after charging:

	2020 £m	2019 £m
Impairment	-	4.9
Amortisation of owned intangible assets	34.8	26.5
Depreciation of owned tangible fixed assets	2.3	3.6

Auditors' remuneration in respect of the audit of the Company's financial statements for the year ended 31 January 2020 amounted to £30,000 (2019: £47,000). The Company's auditor provided no services to the Company other than the annual audit during either the current or prior year.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 credit/(charge) adjustments, net finance costs, contingent consideration remeasurement movements and tax expense.

The pension service credit/(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:

	Note (s)	for the year ended 31 January	
		2020 £m	2019 £m
Trading EBITDA		41.0	43.5
Contingent consideration remeasurement gain		8.9	1.5
Pension service credit/(charge) adjustment		0.7	(0.4)
Amortisation and depreciation	12,13	(37.1)	(30.1)
Impairment	5	-	(4.9)
Adjusting operating items	5	(6.3)	(8.5)
Operating profit		7.2	1.1

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.

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.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 ADJUSTING OPERATING ITEMS

	2020 £m	2019 £m
Adjusting operating items	(6.3)	(8.5)
Impairment	-	(4.9)
	<u>(6.3)</u>	<u>(13.4)</u>

In the current 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 16).

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

6 FINANCE COSTS

	2020 £m	2019 £m
Net finance expense on defined benefit pension scheme	0.1	0.1
Foreign exchange loss/(gain)	0.3	(0.2)
Contingent consideration movements	0.6	1.9
	<u>1.0</u>	<u>1.8</u>

7 INCOME FROM SHARES IN GROUP UNDERTAKINGS

	2020 £m	2019 £m
Forgiveness of intercompany creditor	12.9	1.0
Dividends from subsidiary undertakings	239.5	249.3
	<u>252.4</u>	<u>250.3</u>

8 TAX ON PROFIT

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

	2020 £m	2019 £m
Current tax:		
- Current tax on income in the year	2.7	0.1
- Adjustments in respect of prior periods	0.1	0.4
Total current tax	<u>2.8</u>	<u>0.5</u>
Deferred tax:		
- Origination and reversal of temporary differences	(0.7)	(0.2)
- Adjustments in respect of prior periods	0.2	(0.4)
	<u>(0.5)</u>	<u>(0.6)</u>
Total tax charge/(credit)	<u>2.3</u>	<u>(0.1)</u>

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

8 TAX ON PROFIT (continued)

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:

	2020 £m	2019 £m
Profit before tax	<u>258.6</u>	<u>249.6</u>
Tax at rate of 19.00% (2019: 19.00%)	49.1	47.4
Effects of:		
Adjustments in respect of prior periods	0.3	-
Expenses not deductible for tax purposes	0.5	0.4
Non-taxable dividend income	(45.5)	(47.4)
Non-taxable forgiveness of intercompany debt	(2.4)	(0.2)
Non-taxable disposal of subsidiary	0.3	(0.3)
Total tax charge/(credit)	<u>2.3</u>	<u>(0.1)</u>

9 FINANCIAL ASSETS AT AMORTISED COST

	2020 £m	2019 £m
Loans to related parties	3.5	-

On 29 March 2019, the Company completed the sale of 51% of the share capital of AA Media Limited. The Company retained 49% of the share capital, subsequently accounting for its investment as an investment in a joint venture. Also on 29 March 2019, AA Media Limited issued £3.5m of 5% fixed rate loan notes 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.

10 EMPLOYEE COSTS

Employee costs during the year were as follows:

	2020 £m	2019 £m
Wages and salaries	27.4	20.1
Social security costs	3.3	2.9
Other pension costs	2.6	2.5
	<u>33.3</u>	<u>25.5</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 (2019: nil).

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 DEFERRED TAX ASSETS

Deferred tax by type of temporary difference:

	Statement of financial position		Income statement	
	2020 £m	2019 £m	2020 £m	2019 £m
Decelerated capital allowances	3.2	2.4	(0.8)	(0.5)
Pension	2.3	1.1	0.3	0.2
Other short term temporary differences	(0.6)	(0.6)	-	(0.3)
Deferred tax asset	4.9	2.9	(0.5)	(0.6)
				£m
Deferred tax asset as at 1 February 2019				2.9
Tax credit recognised in the income statement				0.5
Tax credit in other comprehensive income				1.5
Deferred tax asset as at 31 January 2020				4.9

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 was expected to reduce from 19% to 17% on 1 April 2020. These rates had been substantively enacted at the statement of financial position date and have therefore been included in the deferred tax calculations. The March 2020 budget announced that the reduction in tax rate would be cancelled and the 19% rate retained after 1 April 2020.

Deferred tax has been recognised at an overall rate of 17.0% at 31 January 2020 (2019: 17.0%). The rate has been adjusted to reflect the expected reversal profile of the Company's temporary differences. Recalculating the deferred tax asset on the basis that the tax rate remained at 19% would increase the asset by £0.6m.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 INTANGIBLE ASSETS

	Software £m
Cost	
At 1 February 2019	189.5
Additions	29.8
At 31 January 2020	219.3
Accumulated amortisation	
At 1 February 2019	59.7
Charge for year	34.8
At 31 January 2020	94.5
Net book value	
At 31 January 2020	124.8
At 31 January 2019	129.8

Within software is £12.6m (2019: £46.0m) which relates to assets under construction that are not being amortised. Software additions comprise £5.5m (2019: £8.6m) in relation to internally developed assets and £24.3m (2019: £46.8m) in respect of separately acquired assets.

13 PROPERTY, PLANT AND EQUIPMENT

	Equipment and vehicles £m
Cost	
At 1 February 2019	13.3
Additions	0.7
At 31 January 2020	14.0
Accumulated depreciation	
At 1 February 2019	7.8
Charge for year	2.3
At 31 January 2020	10.1
Net book value	
At 31 January 2020	3.9
At 31 January 2019	5.5

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

14 INVESTMENTS IN GROUP UNDERTAKINGS

	Shares in subsidiary undertakings	Shares in joint ventures and associated undertakings
	£m	£m
Cost		
At 1 February 2019	1,604.3	-
Additions	11.4	0.9
Disposals	(7.0)	-
As at 31 January 2020	1,608.7	0.9
Impairment		
At 1 February 2019	1.7	-
Impairment	-	-
As at 31 January 2020	1.7	-
Net book value		
At 31 January 2020	1,607.0	0.9
At 31 January 2019	1,602.6	-

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. See note 9 for further details. This was subsequently recognised as an investment in a joint venture.

During the 2018 financial 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 22.

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. Current and non-current deferred consideration relates to the acquisition of Used Car Sites Limited (AA Cars). During the current 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 2020 to compare the recoverable amount of the investments in subsidiaries to their carrying value.

The impairment test was principally performed on the directly held subsidiary which is supported by cash flow projections of the underlying AA Corporation Limited group. The recoverable amount of the investment was determined based on a value in use calculation using cash flow projections from the Group's three-year plan. For the year ended 31 January 2020, the Company used the three-year plan covering the three years up to 31 January 2023 and a 2.0% expectation of growth in the subsequent year. The three-year plan was adjusted to reflect estimates of certain downside risks in existence at the date of approval of the financial statements that were not reflected when the plan was approved, including the potential financial impact of COVID-19. This primarily relates to the forecast trading impacts in the year to 31 January 2021 and the consequential effects on subsequent years.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

14 INVESTMENTS IN GROUP UNDERTAKINGS (continued)

For the purposes of the impairment test, terminal values have been calculated using a 2.0% (2019: 2.0%) inflationary growth assumption in perpetuity based on the IMF's UK long-term growth rate.

Using an enterprise value model which deducts net debt as at 31 January 2020, 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 8.9% (2019: 9.9%). 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 (2019: no indicators of impairment).

15 TRADE AND OTHER RECEIVABLES

	2020 £m	2019 £m
Trade receivables	0.3	0.6
Amounts owed by group undertakings	847.1	1,491.1
Other receivables	0.6	0.1
Prepayments	8.5	7.6
	<u>856.5</u>	<u>1,499.4</u>

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

16 TRADE AND OTHER PAYABLES

	2020 £m	2019 £m
Amounts owed to group undertakings	677.5	1,440.5
Other taxation and social security	0.9	0.6
Deferred consideration	1.2	1.9
Other payables	9.0	9.0
Accruals	14.6	9.8
	<u>703.2</u>	<u>1,461.8</u>
Non-current		
Deferred consideration	-	9.6
	<u>-</u>	<u>9.6</u>

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

During the current year, the Company was forgiven £12.9m of its intercompany payable balance due to an investment in a subsidiary AA Media Limited. During the prior year, the Company was forgiven £1m of its intercompany payable balance due to a fellow subsidiary undertaking Drakefield Holdings Limited.

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

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

17 CALLED UP SHARE CAPITAL

	2020 £m	2019 £m
Allotted and fully paid		
1,100,010,982 (2018:1,100,010,982) ordinary shares of 70p each	770.0	770.0

As at 31 January 2020, the Company had distributable reserves of £1,111.4m (2019: £992.2m).

During the year, a dividend of 11.8p per share (2019: 11.8p) was paid to the parent entity, AA Senior Co Limited.

In the year ended 31 January 2020, the Company paid a dividend of £129.5m (2019: £129.4m).

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 2020 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:

	2020 £m	2019 £m
Present value of the defined benefit obligation in respect of pension plans	(61.6)	(50.1)
Fair value of plan assets	47.8	43.7
Deficit	(13.8)	(6.4)

The 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 going concern deficit with the contribution level remaining the same. The Group made deficit reduction contributions of £1m in the year ended 31 January 2020 and will continue to make annual deficit reduction contributions, increasing with inflation, until December 2023 or until an alternative agreement is signed with the AAI scheme Trustee. The next triennial valuation of the AAI scheme will take place as at 31 December 2019 and is currently ongoing. The results from the review are expected to be received in late 2020.

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)	-	-

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 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)
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 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)

18 DEFINED BENEFIT PENSION (continued)

Fair value of plan assets

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

The 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:

	2020		2019	
	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	11.4	-	9.8	-
Bonds/swaps	22.0	-	17.3	-
Hedge funds	8.7	-	11.3	-
Property	-	5.6	-	5.2
Cash/net current assets	0.1	-	0.1	-
Total AAI scheme assets	42.2	5.6	38.5	5.2
Actual return on AAI plan assets	6.0		0.6	

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)

18 DEFINED BENEFIT PENSION (continued)

Pension plan assumptions

The principal actuarial assumptions were as follows:

%	2020 %	2019 %
Pensioner discount rate	0.3	1.3
Non-pensioner discount rate	0.8	2.1
Pensioner CPI	1.2	1.3
Non-pensioner CPI	1.2	1.3
Pension increase for deferred benefits	1.2	1.3

Mortality assumptions are set using standard tables based on scheme specific experience where available and an allowance for future improvements. For 2020, the assumptions used were in line with the SAPS (S3) series mortality tables (2019 – SAPS (S2) series) with future improvements in line with the CMI_2018 model with a 1.25% long-term rate of improvement (2019 – CMI_2017 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 scheme's overall assumptions are that an active male retiring in normal health currently aged 60 will live on average for a further 25 years (2019: 27 years) and an active female retiring in normal health currently aged 60 will live on average for a further 28 years (2019: 29 years). The reduction in life expectancies are as a result of incorporating scheme-specific analysis of member mortality rates into the annual reporting valuations.

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 2020 £m
Increase of 0.25% in discount rate	3.3
Increase of 0.25% in RPI/CPI	(1.4)
Increase of one year of life expectancy	(2.3)

An equivalent decrease in the assumptions at 31 January 2020 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 2020 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

	2020 £m	2019 £m
Aggregate remuneration in respect of qualifying services		
Remuneration	1.3	2.7
Money purchase scheme contributions	0.1	0.1
	<u>1.4</u>	<u>2.8</u>

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

Remuneration	0.8	1.4
Money purchase scheme contributions	-	0.1
	<u>0.8</u>	<u>1.5</u>

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 (2019:1) director under a defined benefit scheme and 1 (2019: 3) directors under a money purchase scheme. There was no compensation to directors for loss of office in the year (2019: £nil).

20 GUARANTEES AND COMMITMENTS

At the year end, the Company had capital commitments of £6.2m (2019: £11.1m).

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 2020, the principal outstanding on the AA Intermediate Co Limited group debt was £2,767.0m (2019: £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 ULTIMATE PARENT UNDERTAKING AND ULTIMATE CONTROLLING PARTY

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

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 2020 are:

Name	Country of Incorporation / Registered Office Key	Class of shares held
AA Financial Services Limited	United Kingdom / A	Ordinary
AA The Driving School Agency Limited	United Kingdom / A	Ordinary
Automobile Association Developments Limited ¹	United Kingdom / A	Ordinary
Automobile Association Insurance Services Limited ¹	United Kingdom / A	Ordinary
Drivotech (UK) Limited ¹	United Kingdom / A	Ordinary
Intelligent Data Systems (UK) Limited	United Kingdom / A	Ordinary
AA Brand Management Limited ¹	United Kingdom / A	Ordinary
The Automobile Association Limited ^{1,2}	Jersey / B	Ordinary
Used Car Sites Limited ¹	United Kingdom / A	Ordinary
Prestige Fleet Servicing Limited ⁷	United Kingdom / A	Ordinary

The other subsidiary undertakings of the Company at 31 January 2020 are:

Name	Country of Incorporation / Registered Office Key	Class of shares held
A.A. Pensions Trustees Limited	United Kingdom / A	Ordinary
AA Pension Funding GP Limited	United Kingdom / C	Ordinary
AA Pension Funding LP ⁶	United Kingdom / C	Membership Interest
AA Garage Services Limited	United Kingdom / A	Ordinary
AA Underwriting Limited	United Kingdom / A	Ordinary
Automobile Association Holdings Limited	United Kingdom / A	Ordinary and Deferred redeemable non-voting special dividend
Automobile Association Insurance Services Holdings Limited	United Kingdom / A	Ordinary
Automobile Association Protection and Investment Planning Limited ³	United Kingdom / A	Ordinary
Automobile Association Services Limited	United Kingdom / A	Limited by guarantee
Automobile Association Underwriting Services Limited ²	United Kingdom / A	Ordinary
Drakefield Holdings Limited	United Kingdom / A	A and B Ordinary Shares
Personal Insurance Mortgages and Savings Limited	United Kingdom / A	Ordinary
AA Ireland Pension Trustees DAC ¹	Ireland / D	Ordinary
Breakdown Assistance Services Limited ^{1,4}	United Kingdom / A	Ordinary
Breakdown Hero Limited ⁵	United Kingdom / E	Ordinary
Prestige Car Servicing Limited ⁷	United Kingdom / A	Ordinary
Prestige Motor Care Holdings Limited ⁷	United Kingdom / 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 Automobile Association Protection and Investment Planning Limited was dissolved on 3 March 2020.

⁴ Breakdown Assistance Services Limited changed its name to Accident Assistance Services Limited on 30 August 2019.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

22 SUBSIDIARY UNDERTAKINGS (continued)

⁵ Breakdown Hero Limited was dissolved on 7 April 2020.

⁶ 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.

⁷ The AA acquired the Prestige Group on 1 February 2019.

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
90 Long Acre, London, WC2E 9RA, England	E

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 Law Limited (49% interest held) ²	England	Insurance services
AA Media Limited (49% interest held) ¹	England	Publishing
Intelematics Europe Limited (32% interest held) ²	England	Roadside services

¹ Directly held

² Indirectly held. Intelematics Europe Limited changed its name to DRVNI Solutions Limited on 10 June 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)	Belgium	Roadside services