

AA CORPORATION LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2017

Registered number: 03797747



AA CORPORATION LIMITED
FOR THE YEAR ENDED 31 JANUARY 2017
STRATEGIC REPORT

The directors present their strategic report, directors' report and audited financial statements of AA Corporation Limited ("the Company") for the year ended 31 January 2017.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

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 the AA plc group subsidiaries. During the current year, the Company sold one of its subsidiary undertakings, AA Ireland Limited, for cash consideration net of fees of £120.1m. The sale generated a profit on disposal of £99.1m. As part of the sale, the AA Ireland defined benefit pension scheme was transferred to the Company. The deficit on this scheme at 31 January 2017 was £10.7m.

As shown in the Company's income statement, the Company's turnover decreased by 10.8% to £74.2m during the current year due to a lower recharge of costs. Trading EBITDA was £33.6m (2016: £46.6m), a decrease of 27.9%. Profit before taxation of the Company for the year was £248.5m (2016: £245.2m) following the receipt of a £158.7m (2016: £247.6m) dividend from subsidiary undertakings and £0.9m (2016: £nil) forgiveness of an intercompany creditor. Profit after tax of £253.7m (2016: £243.2m) has been transferred to reserves.

The statement of financial position shows the Company's financial position at year end. Net assets increased to £1,537.1m (2016: £1,978.7m).

DIVIDENDS

The Company has paid a dividend of £202.7m in the year (2016: £71.0m).

RISK MANAGEMENT FRAMEWORK

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

The principal risks have been grouped into the following categories:

Financial Risk

Financial risks are managed centrally by the AA plc group treasury team taking into account the Company's position as part of the group with due consideration being given to the impact of transactions with other group entities.

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.

Brand Risk

The Company recognises that the AA brand is a key differentiator and source of competitive advantage, and brand damage from low quality products or services could have an adverse impact on the Company. The Company has in place policies and procedures to protect the brand at all times.

AA CORPORATION LIMITED
FOR THE YEAR ENDED 31 JANUARY 2017
STRATEGIC REPORT (continued)

RISK MANAGEMENT FRAMEWORK (continued)

Risk of Technological Change

An essential programme of renewal and enhancement of our IT estate is necessary to address the risks to our brand and our competitive capability and to provide data and system security particularly against unauthorised access. Our management team is driving the overall programme supported by enhanced risk management processes.

This IT transformation project is enabling us to improve our overall contact with customers materially, consolidating disparate customer data and information systems, enhancing our digital offerings and improving further our roadside response.

BY ORDER OF THE BOARD



M CLARKE
DIRECTOR
7 JUNE 2017

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

AA CORPORATION LIMITED
FOR THE YEAR ENDED 31 JANUARY 2017
DIRECTORS' REPORT

DIRECTORS

The directors who held office during the year were as follows:

M A Clarke	
R D Mackenzie	
M F Millar	
C E Norman	
G Pritchard	(appointed 30 April 2016)
R J H Scott	(resigned 30 April 2016)

COMPANY SECRETARY

M F Millar

DIRECTORS' INDEMNITY

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

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

In preparing these financial statements, the directors are required to:

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

The directors are responsible for 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. They 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 2017
DIRECTORS' REPORT (continued)

GOING CONCERN

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

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

RE-APPOINTMENT OF AUDITOR

In accordance with section 487(2) of the Companies Act 2006, the Auditor, Ernst and Young LLP, is deemed reappointed.

DISCLOSURE OF INFORMATION TO AUDITOR

Each director has made enquiries of their fellow director and the Company's auditor and taken all the steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Relevant audit information is that information needed by the auditor in connection with preparing its report. So far as each director approving this report is aware, and based on the above steps, there is no relevant audit information of which the auditor is unaware.

EVENTS AFTER THE REPORTING PERIOD

On the 31 March 2017, Intelligent Data Systems Limited and Peak Performance Management Limited, both fellow subsidiaries of the Company, were transferred from the Company to DriveTech (UK) Limited.

BY ORDER OF THE BOARD



M CLARKE
DIRECTOR

7 JUNE 2017

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

AA CORPORATION LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AA CORPORATION LIMITED

We have audited the financial statements of AA Corporation Limited for the year ended 31 January 2017 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 January 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:


- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the Strategic Report and the Directors' Report have 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 have identified no material misstatements in the Strategic Report or Directors' Report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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


Kathryn Barrow (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London
7 June 2017

AA CORPORATION LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 JANUARY

	Note	2017 £m	2016 £m
REVENUE		74.2	83.2
OPERATING COSTS			
Administrative expenses		(78.1)	(84.4)
Profit on disposal of subsidiary	9	99.1	-
OPERATING PROFIT	3	95.2	(1.2)
Trading EBITDA		33.6	46.6
Items not allocated to a segment	4	1.0	-
Impairment of investment	15	(0.5)	(1.2)
Amortisation and depreciation	13,14	(28.5)	(15.9)
Profit on disposal of subsidiary	9	99.1	-
Exceptional items	5	(9.5)	(30.7)
OPERATING PROFIT	3	95.2	(1.2)
Finance costs	10	(6.2)	(1.2)
Income from shares in group undertakings	6	159.5	247.6
PROFIT BEFORE TAX		248.5	245.2
Tax credit / (expense)	11	5.2	(2.0)
PROFIT FOR THE FINANCIAL YEAR		253.7	243.2

All income and expenditure arises from continuing operations.

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

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

	Note	2017 £m	2016 £m
PROFIT FOR THE YEAR		253.7	243.2
Other comprehensive income on items that will not be reclassified to profit and loss in subsequent years			
Remeasurement on losses on defined benefit schemes	20	8.9	-
Tax effect	12	(1.5)	-
TOTAL OTHER COMPREHENSIVE INCOME		7.4	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		261.1	243.2

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

AA CORPORATION LIMITED

STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 JANUARY

	Notes	2017 £m	2016 £m
NON-CURRENT ASSETS			
Intangible assets	13	84.5	64.7
Property, plant and equipment	14	9.0	10.2
Deferred tax asset	12	2.8	1.0
Investments in group undertakings	15	1,576.0	1,577.2
		<u>1,672.3</u>	<u>1,653.1</u>
CURRENT ASSETS			
Trade and other receivables	16	993.0	1,431.0
		<u>993.0</u>	<u>1,431.0</u>
TOTAL ASSETS		<u>2,665.3</u>	<u>3,084.1</u>
CURRENT LIABILITIES			
Provisions for liabilities	17	(2.8)	(0.1)
Trade and other payables	18	(1,114.7)	(1,104.0)
Current tax payable		-	(1.3)
		<u>(1,117.5)</u>	<u>(1,105.4)</u>
NON-CURRENT LIABILITIES			
Defined benefit pension	20	(10.7)	-
		<u>(10.7)</u>	<u>-</u>
TOTAL LIABILITIES		<u>(1,128.2)</u>	<u>(1,105.4)</u>
NET ASSETS		<u>1,537.1</u>	<u>1,978.7</u>
EQUITY			
Called up share capital	19	770.0	770.0
Retained earnings		767.1	1,208.7
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS		<u>1,537.1</u>	<u>1,978.7</u>

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



M CLARKE
DIRECTOR
7 JUNE 2017

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

AA CORPORATION LIMITED

STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Retained earnings £m	Total £m
At 31 January 2015	770.0	1,061.5	1,831.5
Profit for the year	-	243.2	243.2
Dividends paid	-	(71.0)	(71.0)
Forgiveness of intercompany balance	-	(25.0)	(25.0)
At 31 January 2016	770.0	1,208.7	1,978.7
Profit for the year	-	253.7	253.7
Dividends paid	-	(202.7)	(202.7)
Forgiveness of intercompany balance	-	(500.0)	(500.0)
Other comprehensive income	-	7.4	7.4
At 31 January 2017	770.0	767.1	1,537.1

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

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Presentation of financial statements

AA Corporation Limited is incorporated and domiciled in England and Wales.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS101). The financial statements are prepared under the historical cost convention. The financial statements are prepared in Sterling and are rounded to the nearest £100,000.

2 Accounting policies

2.1 Basis of preparation

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 January 2017.

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,
- 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).

Trading EBITDA represents the underlying costs of the support activities provided by the Company excluding depreciation, amortisation, taxation, items not allocated to a segment and exceptional items. Items not allocated to a segment relate to the difference between the cash contributions to the pension scheme for ongoing service and the calculated annual service cost.

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 on-going basis and include the basis for capitalising intangible and tangible assets.

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

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 Significant accounting policies

a) Property, plant, vehicles and equipment

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 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:

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

b) Software and development costs

Software development expenditures on an individual project are recognised as an intangible asset when the Company can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use
- Its intention to complete and its ability to use the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the cost model is applied. The asset is carried at cost less any accumulated amortisation and impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over its useful life of three to five years.

c) Investments in group undertakings

Investments in group undertakings are valued individually at the lower of cost less any provision for impairment or net realisable value. Income from investments is recognised in the Income Statement when it is receivable.

d) Revenue

Revenue represents amounts receivable for goods and services provided, excluding value added tax and trade discounts. Revenue is recognised at point of delivery of goods or on provision of service.

Revenue originates in the UK and consists of the recharge of costs to other AA Group companies. Revenue by destination is not materially different from turnover by origin.

e) Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Company, and hire purchase contracts are capitalised in the balance sheet and are depreciated over the shorter of the lease term and the assets' useful lives. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the Statement of Financial Position. The interest elements of rental obligations are charged in the Income Statement over the periods of the leases and hire purchase contracts.

Rentals payable under operating leases are charged to the Income Statement on a straight line basis over the lease term.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 Significant accounting policies (continued)

f) 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.

g) Taxation

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

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet 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.

h) Exceptional items

Exceptional items are events or transactions that fall within the operating activities of the Company and which by virtue of their size or incidence have been disclosed in order to improve a reader's understanding of the financial statements.

i) Foreign currencies

These financial statements are presented in pounds sterling which is the currency of the primary economic environment in which the Company operates.

Transactions in currencies other than the functional currency are recorded at rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the respective functional currency at rates of exchange ruling at the balance sheet 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.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 Significant accounting policies (continued)

j) Retirement benefit obligation

The Group'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 Group 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 Group'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 Group 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 Group, 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.

3 OPERATING PROFIT

Operating profit is stated after charging:

	2017 £m	2016 £m
Amortisation of owned intangible assets	24.7	13.4
Depreciation of owned tangible fixed assets	3.8	2.5
Operating lease rentals:		
- Motor vehicles	-	0.1
Impairment of investment in subsidiary	0.5	1.2

Auditors' remuneration in respect of the audit of the Company's financial statements for the year ended 31 January 2017 amounted to £60,000 (2016: £60,000). The Company's auditor provided no services to the Company other than the annual audit during either the current or prior year.

4 ITEMS NOT ALLOCATED TO A SEGMENT

	2017 £m	2016 £m
Difference between cash contributions to the pension scheme for ongoing service and the calculated annual service costs	1.0	-
	<u>1.0</u>	<u>-</u>

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 EXCEPTIONAL ITEMS

	2017 £m	2016 £m
Exceptional items	9.5	30.7
	<u>9.5</u>	<u>30.7</u>

The Company incurred £8.7m of exceptional costs relating to the reorganisation of the business, £0.4m loss on disposal of fixed assets and £0.4m relating to AA plc group financing transactions. In the prior year, the Company incurred £30.7m of exceptional costs of which £17.3m related to the reorganisation of the business, £10.0m related to a loss on disposal of its Glass business and £3.4m related to AA plc group financing transactions.

6 INCOME FROM SHARES IN GROUP UNDERTAKINGS

	2017 £m	2016 £m
Forgiveness of intercompany creditor	0.8	-
Dividends from subsidiary undertakings	158.7	247.6
	<u>159.5</u>	<u>247.6</u>

7 STAFF COSTS

Staff costs during the year were as follows:

	2017 £m	2016 £m
Wages and salaries	23.1	31.3
Social security costs	2.8	3.2
Retirement benefit costs	2.0	2.5
	<u>27.9</u>	<u>37.0</u>

Staff 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 (2016: nil).

8 DIRECTORS' REMUNERATION

	2017 £m	2016 £m
Aggregate remuneration in respect of qualifying services		
Remuneration	2.7	1.9
Compensation for loss of office	0.1	-
	<u>2.8</u>	<u>1.9</u>

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

Remuneration	<u>1.3</u>	<u>1.7</u>
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AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

8 DIRECTORS' REMUNERATION (continued)

The directors of the Company are also directors of the ultimate parent undertaking (AA plc) and/or fellow subsidiaries. These directors are remunerated by another company that is part of the AA plc group. As the directors do not believe that it is practicable to apportion this amount between their services as directors of the Company and their services as directors of the ultimate parent undertaking and fellow subsidiary companies, their full remuneration has been reflected in the disclosure above.

Retirement benefits are accruing for 3 (2016: 3) directors under a defined benefit scheme and nil (2016: nil) under a money purchase scheme.

9 PROFIT ON DISPOSAL OF SUBSIDIARY

On 11 August 2016, the Company completed the sale of AA Ireland Limited and its subsidiary undertakings. As part of the transaction, the AA Ireland pension scheme, which is closed to future accrual, was transferred to the Company and will remain the responsibility of the Company (see note 20).

	£m
Proceeds	124.2
Fees	(4.1)
Net proceeds	120.1
Transfer of pension scheme to the Company	(20.3)
Investment in subsidiary at cost	(0.7)
Profit on disposal of subsidiary	99.1

10 FINANCE COSTS

	2017 £m	2016 £m
Interest	0.2	-
Exchange differences	6.0	1.2
	6.2	1.2

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 TAX EXPENSE

The major components of the income tax expense are:

	2017 £m	2016 £m
Current tax:		
- Current tax on income in the year	(0.6)	2.8
- Adjustments in respect of prior periods	(1.3)	(0.3)
Deferred tax:		
- Origination and reversal of temporary differences	(4.5)	(1.0)
- Adjustments in respect of prior periods	1.1	0.3
- Effect of tax rate change on opening balance	0.1	0.2
Total tax (credit) / expense	(5.2)	2.0

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

	2017 £m	2016 £m
Profit before tax	<u>248.5</u>	<u>245.2</u>
Tax at rate of 20.00% (2016: 20.16%)	49.7	49.4
Effects of:		
Adjustment in respect of prior year	(0.2)	-
Expenses not deductible for tax purposes	0.9	4.0
Non taxable dividend income	(31.7)	(49.9)
Impact of FRS 101 conversion adjustment	-	(1.5)
Initial recognition of deferred tax on pension transfer	(4.1)	-
Non-taxable disposal of subsidiary	(19.8)	-
Total tax charge	(5.2)	2.0

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 DEFERRED TAXATION

Deferred tax by type of temporary difference:

	Statement of financial position		Income statement	
	2017 £m	2016 £m	2017 £m	2016 £m
Decelerated capital allowances	2.0	1.0	(1.0)	0.7
Pension	1.8	-	(3.3)	-
Other short term temporary differences	(1.0)	-	1.0	0.3
Other	-	-	-	(1.5)
Deferred tax asset	2.8	1.0	(3.3)	(0.5)
				£m
Deferred tax asset as at 1 February 2016				1.0
Tax expense recognised in the income statement				3.3
Tax expense in other comprehensive income				(1.5)
Deferred tax asset as at 31 January 2017				2.8

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

The UK corporation tax rate will reduce from 20% to 19% on 1 April 2017 and then to 17% (2016: 18%) on 1 April 2020. These rates have been substantively enacted at the balance sheet date and have therefore been included in the deferred tax calculations.

13 INTANGIBLE ASSETS

	Software £m
Cost	
At 1 February 2016	108.6
Additions	44.7
Disposals	(9.3)
At 31 January 2017	144.0
Depreciation	
At 1 February 2016	43.9
Charge for year	24.7
Disposals	(9.1)
At 31 January 2017	59.5
Net book value	
At 31 January 2017	84.5
At 31 January 2016	64.7

Within software is £44.2m (2016: £36.1m) which relates to assets under construction that are not amortised. Software additions comprise £11.8m (2016: £6.8m) in relation to internally developed assets and £32.9m (2016: £35.2m) in respect of separately acquired assets.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

14 PROPERTY, PLANT AND EQUIPMENT

	Equipment and vehicles £m
Cost	
At 1 February 2016	32.8
Additions	2.5
Disposals	(13.5)
At 31 January 2017	21.8
Depreciation	
At 1 February 2016	22.6
Charge for year	3.8
Disposals	(13.6)
At 31 January 2017	12.8
Net book value	
At 31 January 2017	9.0
At 31 January 2016	10.2

15 INVESTMENTS IN GROUP UNDERTAKINGS

Shares in subsidiary undertakings	£m
Cost	
At 1 February 2016	1,578.4
Disposals	(0.7)
At 31 January 2017	1,577.7
Impairment	
At 1 February 2016	(1.2)
Impairment	(0.5)
At 31 January 2017	(1.7)
Net book value at 31 January 2017	1,576.0
Net book value at 31 January 2016	1,577.2

During the year, the Company sold its Irish subsidiary, AA Ireland Limited, which had been held at a cost of £0.7m.

During the year, Peak Performance Management Limited, a subsidiary undertaking of the Company, forgave £0.5m of its intercompany receivables due from the Company. As a result, the Company impaired its investment in Peak Performance Management Limited due to its reduced net asset value.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

16 TRADE AND OTHER RECEIVABLES

	2017 £m	2016 £m
Amounts receivable within one year		
Trade debtors	0.2	-
Amounts owed by group undertakings	987.1	1,425.9
Other debtors	0.4	-
Prepayments and accrued income	5.3	5.1
	<u>993.0</u>	<u>1,431.0</u>

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

During the year, the Company forgave £500.0m of its intercompany receivable balance due from a fellow subsidiary undertaking, AA Senior Co Limited.

17 PROVISIONS FOR LIABILITIES

	Restructuring provision £m
At 31 January 2016	0.1
Charge for the year	2.7
At 31 January 2017	<u>2.8</u>

18 TRADE AND OTHER PAYABLES

	2017 £m	2016 £m
Amounts payable within one year		
Amounts owed to group undertakings	1,101.4	1,087.2
Other taxation and social security	0.6	0.2
Other payables	4.7	9.3
Accruals and deferred income	8.0	7.3
	<u>1,114.7</u>	<u>1,104.0</u>

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

During the year, two fellow subsidiary undertakings, Peak Performance Management Limited and AA Senior Co Limited, forgave the Company £0.5m and £0.4m respectively, of the intercompany payable balance due to them.

19 CALLED UP SHARE CAPITAL

	2017 £m	2016 £m
Allotted, called up and fully paid		
1,100,010,982 ordinary shares of 70p each	<u>770.0</u>	<u>770.0</u>

As at 31 January 2017, the Company had distributable reserves of £767.1m (2016: £1,202.0m).

During the year, a dividend of 18.4p per share was paid to the parent entity, AA Senior Co Limited.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 PENSIONS

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

The AAI pension 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 board is required by law to act in the best interests of the plan beneficiaries and is responsible for setting certain policies such as the investment strategy of the scheme.

The valuations have been based on a full assessment of the liabilities of the scheme which have been updated where appropriate to 31 January 2017 by independent qualified actuaries.

The amounts recognised in the balance sheet are as follows:

As at 31 January 2017	
	£m
Present value of the defined benefit obligation in respect of pension plans	(52.7)
Fair value of plan assets	42.0
Deficit	(10.7)

Balance transferred from AA Ireland Limited	
	£m
Present value of the defined benefit obligation in respect of pension plans	(61.0)
Fair value of plan assets	40.7
Deficit	(20.3)

The decrease in the deficit is due to changes in the financial assumptions, primarily an increase in the discount rate partially offset by the updating of mortality rates. The last triennial valuation for the AAI scheme was in December 2013. The Company made deficit reduction contributions of c. £0.8m in the year ended 31 January 2017 and will continue to make annual deficit reduction contributions, increasing with inflation, until the deficit is cleared or until the next triennial valuation is agreed. The triennial valuation of the AAI scheme is due as at 31 December 2016, and will be finalised during the 2018 financial year.

The Company is currently committed to pay c. £1m in deficit reduction employer contributions to its defined benefit plan (AAI) in the year ending 31 January 2018.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 PENSIONS (continued)

	Assets £m	Liabilities £m	Income statement £m	Statement of comprehensive income £m
Balance transferred from AA Ireland Limited	40.7	(61.0)	-	-
Interest on defined benefit scheme assets / (liabilities)	0.5	(0.6)	(0.1)	-
Amounts recognised in the income statement	0.5	(0.6)	(0.1)	-
Effect of changes in financial assumptions	-	8.3	-	8.3
Return on plan assets excluding interest income	0.6	-	-	0.6
Amounts recognised in the statement of comprehensive income	0.6	8.3	-	8.9
Foreign exchange gain / (loss)	0.5	(0.5)	-	-
Benefits paid from scheme assets	(1.1)	1.1	-	-
Deficit reduction contributions	0.8	-	-	-
Movements through cash	(0.3)	1.1	-	-
Balance at 31 January 2017	42.0	(52.7)	-	-

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 plan 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:

	2017		Opening balance	
	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	13.7	-	15.7	-
Bonds	14.1	-	14.2	-
Hedge funds	-	13.9	-	10.7
Cash / net current assets	0.3	-	0.1	-
Total plan assets	28.1	13.9	30.0	10.7
Actual return on AAI plan assets	1.1		-	

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 PENSIONS (continued)

To diversify sources of return and risk, the AAI scheme invests in many asset classes and strategies, including equities and bonds 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 adviser carries 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:

%	2017 %	Opening balance %
Pensioner discount rate	1.6	0.9
Non pensioner discount rate	2.4	1.6
Pensioner increase for deferred benefits	1.5	1.2

Mortality assumptions are set using standard tables based on scheme specific experience where available and an allowance for future improvements. For 2017, the assumptions used were in line with the PNL00 series mortality tables (2016 – same) with CSO projected improvements in population mortality rates from 2005 (2016 – same).

The AA schemes' assumptions are that an active male retiring in normal health currently aged 60 will live on average for a further 28 years and an active female retiring in normal health currently aged 60 will live on average for a further 29 years.

Sensitivity analysis

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

	For the year ending 31 January 2017 £m
Increase of 0.25% in discount rate	(3.3)
Increase of 0.25% in Inflation rate	1.3
Increase of one year of life expectancy	2.0

An equivalent decrease in the assumptions at 31 January 2017 would have had broadly equal but opposite effects on the amounts shown above, on the basis that all other variables remain constant.

The weighted average duration of plan liabilities at 31 January 2017 is around 21 years.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 PENSIONS (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 Scheme 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.

Interest rate risk and Inflation risk - this is the risk that the present value of future cash flows of a financial asset or liability will fluctuate because of changes in market interest rates and/or expected inflation. The Scheme is subject to interest rate and inflation risk because some of the Scheme investments are in gilts, index linked gilts and other hedging assets. These investments are held in order to mitigate the impact of interest rate and inflation changes on the Scheme liabilities.

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 Scheme's 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. The company is exposed to currency risk as a result of the AAI scheme being denominated in euros.

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 of reasonable levels of market exposure relative to initial margin and positions are fully collateralised on a daily basis with secure cash or gilts collateral.

The AA Ireland scheme does not have a formal hedging policy. It has a range of trigger points which, when reached, will prompt a review of investment strategy. One of those is related to bond yield with a view to further de-risking taking place when the trigger is reached. In the meantime, the Trustee invests and monitors outcomes in order to mitigate risks related to interest rate changes, inflation, chosen markets, chosen managers, cashflow and operational risks.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 PENSIONS (continued)

Investment strategy

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

The Trustee aims to achieve the Scheme's investment objectives through investing in a diversified mix of growth assets which, over the long term, are expected to grow in value by more than low risk assets like cash and gilts. This is done within a broad liability driven investing framework that uses such cash, gilts and other hedging instruments like swaps in a capital efficient way. In combination this efficiently captures the Trustee risk tolerances and return objectives relative to the Scheme's liabilities. A number of investment managers are appointed to promote diversification by assets, organisation and investment style.

21 GUARANTEES AND COMMITMENTS

Operating leases

Future minimum rentals payable under non-cancellable operating leases as at 31 January are as follows:

	Motor vehicles	
	2017 £m	2016 £m
Leases expiring:		
In two to five years	-	(0.1)
	<u>-</u>	<u>(0.1)</u>

At the year end, the Company had capital commitments of £11.5m (2016: £12.5m).

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 2017, the principal outstanding on the AA Intermediate Co Limited group debt was £2,848.0m (2016: £2,914.0m).

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.

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

22 ULTIMATE PARENT UNDERTAKING AND ULTIMATE CONTROLLING PARTY

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

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

23 SUBSIDIARY UNDERTAKINGS

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

The principal subsidiary undertakings of the Company at 31 January 2017 are:

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

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

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

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

AA CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

23 SUBSIDIARY UNDERTAKINGS (continued)

The other subsidiary undertakings of the Company at 31 January 2017 are:

Name	Country
A.A. Pensions Trustees Limited ²	United Kingdom
AA Assistance Limited ²	United Kingdom
AA Pension Funding GP Limited ³	United Kingdom
AA Pension Funding LP ³	United Kingdom
AA Road Services Limited ²	United Kingdom
AA Underwriting Limited ²	United Kingdom
Automobile Association Holdings Limited ²	United Kingdom
Automobile Association Insurance Services Holdings Limited ²	United Kingdom
Automobile Association Protection and Investment Planning Limited ²	United Kingdom
Automobile Association Services Limited ²	United Kingdom
Automobile Association Travel Services Limited ²	United Kingdom
Automobile Association Underwriting Services Limited ²	United Kingdom
Drakefield Group Limited ²	United Kingdom
Drakefield Holdings Limited ²	United Kingdom
Drakefield Insurance Services Limited ²	United Kingdom
Drakefield Services Limited ²	United Kingdom
Nationwide 4 X 4 Ltd ²	United Kingdom
Personal Insurance Mortgages and Savings Limited ²	United Kingdom
AA Ireland Pension Trustees DAC ⁴	Ireland
Breakdown Assistance Services Limited ^{1,5}	United Kingdom
Breakdown Hero Limited ⁵	United Kingdom

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

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

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

⁴ Company registered office: 61a South William Street, Dublin 2, Ireland.

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

24 EVENTS AFTER THE REPORTING PERIOD

On the 31 March 2017, Intelligent Data Systems Limited and Peak Performance Management Limited, both fellow subsidiaries of the Company, were transferred from the Company to DriveTech (UK) Limited.