AA INTERMEDIATE CO LIMITED

QUARTERLY REPORT

FOR THE THREE AND NINE MONTHS ENDED 31 OCTOBER 2013

FORWARD-LOOKING STATEMENTS

This document contains various forward-looking statements that reflect management's current views with respect to future events and anticipated financial and operational performance. Forward-looking statements as a general matter are all statements other than statements as to historical facts or present facts or circumstances. The words "aim," "anticipate," "assume," "believe," "contemplate," "continue," "could," "estimate," "expect," "forecast," "intend," "likely," "may," "might," "plan," "positioned," "potential," "predict," "project," "remain," "should," "will" or "would," or, in each case, their negative, or similar expressions, identify certain of these forward-looking statements. Other forward-looking statements can be identified in the context in which the statements are made. Forward-looking statements appear in a number of places in this document and include, among other things, statements relating to the Company's:

- strategy, outlook and growth prospects, including our plans to increase the sale of our products and services through cross-selling and up-selling to our existing customers;
- operational and financial targets;
- results of operations, liquidity, capital resources and capital expenditure;
- cost-saving programmes;
- financing plans and requirements;
- separation of our operations from the Acromas Group and the Saga Group;
- planned investments;
- future growth in demand for the AA's products and services;
- general economic trends and trends in the markets in which the Company operates;
- the impact of regulations and laws on the Company's operations;
- retention of personal members, B2B customers and B2B partners;
- the competitive environment in which the AA operates and pricing pressure it may face;
- plans to launch new or expand existing products and services; and
- the outcome of legal proceedings or regulatory investigations.

By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance and the Company's actual financial condition, results of operations and cash flows, and the development of the industry in which it operates, may differ materially from (and be more negative than) those made in, or suggested by, the forward-looking statements contained in this document. In addition, even if its financial condition, results of operations and cash flows and the development of the industry in which we operate are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that they will materialise or prove to be correct. Because these forward-looking statements are based on assumptions or estimates and are subject to risks and uncertainties, the actual results or outcome could differ materially from those set out in the forward-looking statements as a result of, among others:

- the loss or impairment of the Company's favourable brand recognition;
- the operational failure of IT and communication systems or the failure to develop IT and communication systems;
- the loss of key contractual relationships with certain B2B partners;
- increased competition within the Company's business segments;
- existing competition within the insurance broking market;
- changes in the competitive landscape within the insurance industry, and changes relating to the Company's insurance panel members;

- failure to renew existing contracts or enter into new contracts with suppliers;
- litigation (including in connection with roadside injuries or death) or regulatory inquiries or investigations;
- the failure to comply with data protection laws and regulations or failure to secure and protect personal data;
- a lack of price harmonisation across personal member and B2B customer base or changes in the levels of price discounts or churn;
- our ability to achieve cost savings and control or reduce operating costs;
- severe or unexpected weather, which may increase our operating costs;
- changes in economic conditions in the United Kingdom;
- changes within the vehicle market, including the average age of vehicles on the road, extended manufacturer guarantees and reduced vehicle use;
- failure to protect the Company's brand and other intellectual property rights from infringement;
- the Company's ability to successfully manage risks and liabilities relating to acquisitions and integrate any future acquisitions or consummate disposals in the future;
- the Company's ability to operate as a stand-alone business following the Separation and potential increased operating costs incurred as a stand-alone business;
- the Company's ability to retain or replace senior management and key personnel;
- union relations, strikes, work stoppages or other disruptions in our workforce;
- the interests of our controlling shareholders, Acromas or Saga;
- adverse changes in the laws and regulations governing the Company's business;
- risks relating to the Company's pension schemes;
- risks relating to our financing structure;
- factors affecting leverage, our ability to service our debt and its financing structure;
- risks relating to security, enforcement and insolvency; and
- risks relating to taxation.

These forward-looking statements speak only as of the date of this document. We expressly undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by law or regulation. Accordingly, prospective investors are cautioned not to place undue reliance on any of the forward-looking statements herein. In addition, all subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the cautionary statements referred to above.

Introduction

The directors present the condensed financial statements of AA Intermediate Co Limited ("the Company") and its subsidiary undertakings (together "the Group") for the period ended 31 October 2013. The Company is an Obligor and a parent company of each of the other Obligors that provide security and guarantees under the financing arrangements entered into by the AA on 2 July 2013. The Company's immediate parent is AA Mid Co Limited. There is no material difference in the financial conditions and results of operations between the AA Intermediate Co Limited Group and the AA Mid Co Limited Group.

The condensed financial statements of the Company do not include the results of AA Limited, the immediate parent company of AA Mid Co Limited, as on a consolidated basis, the EBITDA of AA Limited would be within 5% of the EBITDA of the Group. The only material differences in the consolidated assets and liabilities of AA Limited compared to the Group are in relation to (i) Goodwill, which was £1,313 million lower for AA Limited as the valuation is based on the 2004 acquisition of the Group by AA Limited rather than the 2007 Acromas acquisition shown in the condensed financial statements of the Company, (ii) balances due from other group companies which were £1,204 million lower for AA Limited as all non-trading balances were eliminated as part of the July 2013 financing transaction, and (iii) the £350 million Senior PIK Toggle note liability and £57 million of cash from the proceeds of the £350 million Senior PIK Toggle Notes (see 'Financing transactions' below), which is held to pre-fund the first three interest payments on the Senior PIK Toggle Notes.

This report has been prepared in accordance with the terms governing our indebtedness, which require greater detail than required under UK GAAP.

Principal activity and review of business developments

The Group forms part of the Acromas Group (Acromas Holdings Limited and its subsidiary undertakings), a privately owned organisation backed by Charterhouse Capital Partners, CVC Capital Partners and Permira Advisers, three substantial private equity firms.

The Group provides AA branded goods and services across the UK and Ireland. The AA's principal activity is the provision of Roadside Assistance to both its personal members and business customers (which in aggregate makes up over 70% of Group turnover). The AA is recognised nationally as 'the 4th Emergency Service'.

The other business segments that the AA operates in the UK are Insurance Services and Driving Services. The AA business strategy includes cross-selling Insurance Services to its membership utilising its marketing database and multiple points of contact with its customers. The AA business in Ireland operates in all these areas however its trading performance is reported in a separate segment within this report.

The business is focused on delivering the highest possible standards of customer service, quality products, stable and predictable profits, strong operating margins and high cash conversion. The Group continued to demonstrate all of these qualities during the quarter.

- Trading EBITDA increased by 8.2% to £104.0 million (2012: £96.1 million) in the three months ended 31 October 2013 and by 7.6% to £307.8 million (2012: £286.0 million) in the nine months ended 31 October 2013;
- Trading EBITDA margins improved in the three months ended 31 October 2013 to 42.6% (2012: 39.7%) and to 42.3% (2012: 39.8%) in the nine months ended 31 October 2013;

Principal activity and review of business developments (continued)

- We have generated available cash flow from operating activities of £107.8 million giving a cash conversion rate of 103.7% (2012: £125.1 million and 130.2%) in the three months ended 31 October 2013 and of £324.8 million with a cash conversion rate of 105.5% (2012: 298.7 million and 104.4%) in the nine months ended 31 October 2013.

- Our leverage as measured by net debt to EBITDA has reduced to 7.0 times and as measured by net senior secured debt to EBITDA has reduced to 5.3 times as at 31 October 2013, compared to Q1 pro forma leverage ratios of 7.6 times and 5.9 times respectively.

Recent developments

As part of the refinancing transaction in July 2013, the Group undertook to make certain structural changes after closing, including the (i) implementation of an asset-backed funding scheme to provide a structure to manage our expected pension deficit and (ii) transfer of the Roadside Assistance business from a Jersey registered company (The Automobile Association Limited) to a UK registered company (Automobile Association Developments Limited).

On 29 November 2013, the Group completed the pension scheme triennial valuation, agreeing a deficit of £200 million with the Pension Trustees and implementing the asset-backed funding scheme on a substantially similar basis to that described within the governing documents of the Group's borrowings. This gives an annual deficit reduction contribution of £12.2 million, which increases with inflation over a period of up to twenty five years secured on the Group's brands and affords us a one-off £198 million tax deduction that the Group can utilise within the next two years. This secured twenty five year deficit reduction plan compares with a traditional unsecured deficit reduction plan requiring the deficit to be removed over a substantially shorter period.

The transition of the Roadside Assistance business from The Automobile Association Limited to Automobile Association Developments Limited is now largely complete with only a small number of business customers, two supplier contracts including one property lease remaining to transfer and the requirement to communicate the change to the customers of one of our banking partners. We currently expect this process to be complete by the end of the first quarter of the next financial year.

In addition, the Group continues to take market share in the Roadside Assistance business services market with the recent wins of the Hyundai, Porsche and Volkswagen Group contracts.

Financing transactions

On 7 November 2013, AA Limited, via its wholly owned subsidiary AA PIK Co Limited, issued £350 million of Senior PIK Toggle notes. The proceeds of these notes were primarily used to repay Acromas group bank debt with £57 million retained to fund the first twenty months of interest and issue costs. The Notes are secured by a first priority charge over all the shares of AA Mid Co Limited (the Group's immediate parent undertaking) and a charge over the pre funded interest but are structurally subordinated to all of the debt and liabilities of the Group. None of the Group's subsidiaries are guarantors to these Notes. The ability of AA Limited to pay interest on the Notes in cash will depend on the ability of the Group to make cash payments to AA Limited, which is governed by the terms of the Group borrowings.

On 29 November 2013, the Group issued £500 million of 7-year Class A3 fixed rate secured notes. The proceeds of this bond issuance were used to repay £500 million of the Senior Term Facility, leaving £913 million outstanding. These notes were issued at par with a coupon of 4.2487%.

Summary management discussion and analysis

As the Group competes in a number of markets with different performance measures, the aggregate performance of the Group is measured using the financial measures as shown in the table below.

	Three months ended		Nine months ended	
	October 2013	**October 2012**	**October 2013**	**October 2012**
Turnover (£m)	244.0	242.0	728.1	718.9
Trading EBITDA (£m)	104.0	96.1	307.8	286.0
Trading EBITDA[1] margin (%)	42.6%	39.7%	42.3%	39.8%
Available cash inflow from operating activities (£m)	107.8	125.1	324.8	298.7
Cash conversion[2] (%)	103.7%	130.2%	105.5%	104.4%

	At 31 October 2013
Net Debt[3] (£'m)	2,896.6
Net Senior Secured Debt[4] (£'m)	2,220.1
Net Debt to EBITDA ratio[5]	7.0
Net Senior Secured Debt to EBITDA ratio[6]	5.3
Class A Free Cash Flow : Debt Service[7]	8.5
Class B Free Cash Flow : Debt Service[8]	5.1
Pro forma Class A Free Cash Flow : Debt Service[9]	3.2
Pro forma Class B Free Cash Flow : Debt Service[10]	2.0

[1] Trading EBITDA divided by turnover arising within operating segments
[2] Available cash inflow from operating activities divided by Trading EBITDA
[3] Principal amounts of the Senior Term Facility, Class A Notes, Class B Notes, and finance leases less cash and cash equivalents excludes Senior PIK Toggle notes outside of the security structure
[4] Principal amounts of the Senior Term Facility and Class A Notes less cash and cash equivalents
[5] Ratio of Net Debt to Trading EBITDA for the last twelve months
[6] Ratio of Net Senior Secured Debt to Trading EBITDA for the last twelve months
[7] Ratio of last twelve months free cash flow to debt service relating to the Senior Term Facility and Class A Notes
[8] Ratio of last twelve months free cash flow to total debt service
[9] Ratio of last twelve months free cash flow to *pro forma* debt service relating to the Senior Term Facility and Class A Notes, as if the Group had entered into these facilities on 1 November 2012
[10] Ratio of last twelve months free cash flow to *pro forma* debt service, as if the Group had entered into the Senior Term Facility and issued the Class A Notes and Class B Notes on 1 November 2012.

Group turnover increased to £244.0 million in the three months ended 31 October 2013 (2012: £242.0 million) and to £728.1 million in the nine months ended 31 October 2013 (2012: £718.9 million). The growth in turnover was largely due to continued growth within our Roadside Assistance business.

Summary management discussion and analysis (continued)

Trading EBITDA (earnings before interest, tax, depreciation and amortisation) is used as a key measure of underlying performance. This measure excludes exceptional items and items not allocated to a business segment, which in the current period principally relate to the difference between the cash contributions to the pension schemes for on-going service and the calculated annual service cost.

Group Trading EBITDA increased by 8.2% to £104.0 million in the three months ended 31 October 2013 (2012: £96.1 million) and by 7.6% to £307.8 million in the nine months ended 31 October 2013 (2012: £286.0 million), principally as a result of continued growth in Roadside Assistance, a profitable contribution from the Group's home emergency product and the benefits of cost saving initiatives completed in the final quarter of the last financial year. As a result Trading EBITDA margins improved in the three months ended 31 October 2013 to 42.6% (2012: 39.7%) and to 42.3% (2012: 39.8%) in the nine months ended 31 October 2013.

Exceptional costs incurred in the nine months ended 31 October 2013 of £13.7 million include £9.9 million related to the Group's borrowings (both the refinancing transactions that closed on 2 July 2013 and the subsequent issuances pursuant to our Class A note program). In addition, transaction costs of £91.9 million directly linked to the issuances of debt have been offset against the Group's secured debt, of which £9.3 million was immediately recognised in net interest payable, with the balance being amortised in line with the expected maturity of these borrowings.

Key operating measures

We use several key operating measures to track the financial and operating performance of our business. None of these terms are measures of financial performance under UK GAAP, nor have these measures been audited or reviewed by an auditor, consultant or expert. All these measures are derived from the Company's internal operating and financial systems. These terms may not be directly comparable to similar terms used by competitors or other companies.

	Three months ended		**Nine months ended**	
	October 2013	**October 2012**	**October 2013**	**October 2012**
Roadside Assistance				
Personal members (000's)	4,019	4,112	4,019	4,112
Business customers (000's)	8,551	8,635	8,551	8,635
Breakdowns attended (million)	0.8	0.9	2.6	2.6
Average income per member (£)	124	118	124	118
Insurance Services				
Policy numbers in force (000s)	2,388	2,629	2,388	2,629

Roadside personal members have reduced by 2.3% compared to the same period last year, while average income per member has increased by 5.1% over the same period. The change reflects the Group strategy to optimise revenue on the Roadside book.

Business customers have reduced by 1% compared to the same period last year, which reflects fluctuations in the number of customers covered by individual contracts rather than a change in the number of contracts the Group services. Income from business customer contracts is largely driven by the number of call outs we attend which were broadly in line over the nine month periods to October 2012 and 2013.

Insurance Services policy numbers in force reduced by 9% compared to the same period last year, which is primarily related to the focus on selling motor insurance to the Roadside membership base, reducing overall policy volumes

Cash flow, net debt and liquidity

Cash generation for the Group has been strong with available cash flow from operating activities of £107.8 million (cash conversion: 103.7%) in the three months ended 31 October 2013 and of £324.8 million (cash conversion: 105.5%) in the nine months ended 31 October 2013. Overall, improved profitability combined with the positive contribution from working capital, has led to a further deleveraging of the Group. Net debt to EBITDA stood at 7.0 times and net senior secured debt to EBITDA at 5.3 times as at 31 October 2013, compared to Q1 pro forma leverage ratios of 7.6 times and 5.9 times respectively. However if the accrued interest on this debt was included within the definition of net debt, these ratios would increase to 7.1 and 5.4 respectively

The Group has a cash balance of £167.9 million, invested in AAA money market funds, giving overnight access and high liquidity. The Group has not drawn its Working Capital Facility and does not currently envisage needing to do so.

The Group is required to hold segregated funds as 'restricted cash' in order to satisfy regulatory requirements governing our insurance underwriting business and Irish subsidiaries. Restricted cash has decreased from £32.6 million at 31 October 2012 to £20.8 million at 31 October 2013 primarily due to the sale of the Group's insurance underwriting business.

The Group covenants comparing free cash flow to debt service are set out in this report on the basis of the last twelve months and so will show an unrealistic view of the position until the new debt structure has been in place for a year. The pro forma leverage calculations show the position had the debt package been put in place a year ago. Pro forma Class A free cash flow to debt service was 3.2 times as at 31 October 2013 and pro forma Class B free cash flow to debt service was 2.0 times, with substantial headroom to the covenants within the financing arrangements.

Related parties

There has been no change to related parties since the last financial statements prepared for the period ending 31 January 2013. There are no material related party transactions impacting these interim financial statements other than the intercompany transactions outlined above as part of the financing transaction. All transactions with other companies within the Acromas Group are governed by the Umbrella Services Agreement, which was put in place in connection with the financing transactions that closed on 2 July 2013. Since July, the services historically provided by the Acromas Group have increasingly been assumed by the AA, further reducing the Group's level of dependence on Acromas resource.

Management discussion and analysis - three months ended 31 October 2013 and 31 October 2012

	Three months ended October 2013 £m	Three months ended October 2012 £m
Turnover	244.0	242.0
Cost of sales	(86.7)	(88.6)
Gross profit	157.3	153.4
Administrative and marketing expenses	(112.1)	(135.1)
Other operating income	-	0.3
Operating profit	45.2	18.6
Trading EBITDA	104.0	96.1
Items not allocated to a segment	(1.5)	1.0
Depreciation	(10.1)	(9.6)
Goodwill amortisation	(42.1)	(42.1)
Exceptional items	(5.1)	(26.8)
Operating profit	45.2	18.6
Profit on sale of joint venture	0.5	-
Net interest payable and similar charges	(60.1)	(1.2)
(Loss)/profit on ordinary activities before taxation	(14.4)	17.4
Taxation	(9.7)	(8.3)
(Loss)/profit for the period	(24.1)	9.1

Turnover: Turnover increased by £2.0 million or 0.8% from £242.0 million in the three months ended 31 October 2012 to £244.0 million in the three months ended 31 October 2013. The increase in turnover was primarily driven by growth in the Roadside Assistance segment as outlined below.

Roadside Assistance: Roadside Assistance turnover increased by £5.6 million or 3.3% from £167.8 million in the three months ended 31 October 2012 to £173.4 million in the three months ended 31 October 2013. The increase in turnover was primarily driven by stable retention rates and increased average income per personal member. Income also increased as a result of increased levels of pay-for-use activity from our business services customers.

Insurance Services: Insurance Services turnover decreased by £3.5 million or 8.6% from £40.9 million in the three months ended 31 October 2012 to £37.4 million in the three months ended 31 October 2013. The decrease in turnover was primarily driven by lower ancillary revenue from motor insurance customers.

Driving Services: Driving Services turnover decreased by £0.7 million or 3.0% from £23.7 million in the three months ended 31 October 2012 to £23.0 million in the three months ended 31 October 2013. The decrease in turnover was primarily driven by the impact of the removal of unprofitable titles from the publishing business in the previous financial year, combined with a small reduction in pupil numbers across the AA’s two driving schools.

AA Ireland: AA Ireland turnover increased by £0.6 million or 6.3% from £9.6 million in the three months ended 31 October 2012 to £10.2 million in the three months ended 31 October 2013. The increase in turnover was primarily driven by an improvement in the Euro exchange rate.

Management discussion and analysis - three months ended 31 October 2013 and 31 October 2012 *(continued)*

Cost of sales: Cost of sales decreased by £1.9 million or 2.1% from £88.6 million in the three months ended 31 October 2012 to £86.7 million in the three months ended 31 October 2013. The decrease in cost of sales was primarily driven by cost saving initiatives and improved performance of the windscreen replacement business in the Roadside Assistance segment.

Administrative and marketing expenses: Administrative and marketing expenses decreased by £23.0 million or 17.0% from £135.1 million in the three months ended 31 October 2012 to £112.1 million in the three months ended 31 October 2013. The decrease in administrative and marketing expenses was primarily driven by higher exceptional costs from the restructuring of group operations in the three months ended 31 October 2012. Excluding exceptional items, administrative and marketing costs fell slightly as a result of cost saving initiatives implemented in the final quarter of the last financial year.

Other operating income: Other operating income decreased by £0.3 million or 100.0% from £0.3 million in the three months ended 31 October 2012 to £nil in the three months ended 31 October 2013. The decrease in other operating income was primarily driven by the sale of the Group's Insurance Underwriting segment in July 2013.

Operating profit: Operating profit increased by £26.6 million or 143.0% from £18.6 million in the three months ended 31 October 2012 to £45.2 million in the three months ended 31 October 2013. The increase in operating profit was primarily driven by the decrease in exceptional items. Excluding exceptional items, operating profit increased by £4.9 million or 10.8% from £45.4 million in the three months ended 31 October 2012 to £50.3 million in the three months ended 31 October 2013 due to the increase in business profitability described below.

Net interest payable and other similar charges: Net interest payable and other similar charges increased to £58.9 million from £1.2 million in the three months ended 31 October 2012 to £60.1 million in the three months ended 31 October 2013. The increase in net interest payable and other similar charges was driven by debt interest payable and amortisation of debt issue costs relating to the borrowings outlined in note 10.

Taxation: Taxation increased by £1.4 million or 16.8% from a charge of £8.3 million in the three months ended 31 October 2012 to a charge of £9.7 million in the three months ended 31 October 2013. The increase in taxation was driven by a reduction in current tax due to the higher interest payable on borrowings as well as the impact of the asset-backed funding scheme for the AA UK pension scheme detailed in note 15 offset by the £38.0 million release of the AA UK pension deferred tax asset.

Trading EBITDA

Trading EBITDA is a non-UK GAAP measure and is not a substitute for any UK GAAP measure.

Trading EBITDA increased by £7.9 million or 8.2% from £96.1 million in the three months ended 31 October 2012 to £104.0 million in the three months ended 31 October 2013. The increase in trading EBITDA was primarily driven by growth in the Roadside Assistance segment as outlined below.

> *Roadside Assistance*: Roadside Assistance trading EBITDA increased by £5.9 million or 7.6% from £77.3 million in the three months ended 31 October 2012 to £83.2 million in the three months ended 31 October 2013. Trading EBITDA margins increased from 46.1% in the three months ended 31 October 2012 to 48.0% in the three months ended 31 October 2013. The increase in trading EBITDA was driven by stable retention rates and increased average income per personal member as well as increased levels of pay-for-use activity from our business services customers. Cost saving initiatives implemented in the last financial year and the improved performance of the windscreen replacement business during the period also increased trading EBITDA margin.

Management discussion and analysis - three months ended 31 October 2013 and 31 October 2012 *(continued)*

Insurance Services: Insurance Services trading EBITDA decreased by £1.1 million or 4.6% from £23.9 million in the three months ended 31 October 2012 to £22.8 million in the three months ended 31 October 2013. Trading EBITDA margins increased from 58.4% in the three months ended 31 October 2012 to 61.0% in the three months ended 31 October 2013. The decrease in trading EBITDA was driven by lower ancillary income from motor insurance customers. This reduction in turnover has been mitigated in terms of trading EBITDA and trading EBITDA margin performance by continued growth in the home emergency product and cost reduction initiatives with respect to call centre activities.

Driving Services: Driving Services trading EBITDA increased by £0.7 million or 14.9% from £4.7 million in the three months ended 31 October 2012 to £5.4 million in the three months ended 31 October 2013. Trading EBITDA margins increased from 19.8% in the three months ended 31 October 2012 to 23.5% in the three months ended 31 October 2013. The increase in the trading EBITDA margin was driven by the removal of unprofitable titles in the publishing business combined with the impact of the restructuring exercise undertaken in the fourth quarter of the last financial year.

AA Ireland: AA Ireland trading EBITDA increased by £0.5 million or 13.9% from £3.6 million in the three months ended 31 October 2012 to £4.1 million in the three months ended 31 October 2013. Trading EBITDA margins increased from 37.5% in the three months ended 31 October 2012 to 40.2% in the three months ended 31 October 2013. The increase in both trading EBITDA and trading EBITDA margin was driven by cost saving initiatives implemented in the business. The strengthening of the Euro compared to the comparative reporting period has also improved AA Ireland results reported in sterling.

Head Office Costs: Head Office Costs decreased by £1.7 million or 12.9% from £13.2 million in the three months ended 31 October 2012 to £11.5 million in the three months ended 31 October 2013. The decrease in Head Office Costs is due to cost saving initiatives implemented in the second quarter of the current financial year.

Management discussion and analysis - three months ended 31 October 2013 and 31 October 2012 *(continued)*

Cash flow	Three months ended October 2013 £m	Three months ended October 2012 £m
Operating profit	45.2	18.6
Amortisation of goodwill	42.1	42.1
Depreciation of tangible fixed assets	10.1	9.6
Less other operating income	-	(0.3)
Change in working capital	8.1	35.8
Net cash inflow from operating activities	105.5	105.8
Returns on investment and servicing of finance	(17.3)	(0.5)
Taxation	(0.1)	-
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(6.2)	(6.2)
Acquisitions and disposals	(1.0)	(8.7)
Net cash inflow before financing	80.9	90.4
Financing		
Proceeds from borrowings (Class A1 and A2 notes)	361.3	-
Issue costs on borrowings	(18.5)	-
Repayment of borrowings (Senior Term Facility)	(362.0)	-
Repayment of capital element of finance leases	(4.1)	(0.8)
Payments to group treasury	-	(110.6)
	(23.3)	(111.4)
Overall increase/(decrease) in cash	57.6	(21.0)

Change in working capital: The change in working capital was positive £35.8 million in the three months ended 31 October 2012 compared to positive £8.1 million in the three months ended 31 October 2013. This change in working capital in the three months ended 31 October 2012 was principally impacted by the increase in provisions from the restructuring of group operations.

Net cash flow from operating activities: Net cash flow from operating activities decreased from a cash inflow of £105.8 million in the three months ended 31 October 2012 to a cash inflow of £105.5 million in the three months ended 31 October 2013. Excluding cash flows relating to exceptional items, the underlying net cash flow from operating activities increased from £109.5 in the three months ended 31 October 2012 compared to £114.4 million in the three months ended 31 October 2013 due to an increase in business profitability.

Returns on investment and servicing of finance: Cash outflow from returns on investment and servicing of finance was £0.5 million in the three months ended 31 October 2012 compared to £17.3 million in the three months ended 31 October 2013. The increase in cash outflow from returns on investment and servicing of finance was primarily driven by interest paid on borrowings arising from the financing transaction.

Management discussion and analysis - three months ended 31 October 2013 and 31 October 2012 *(continued)*

Taxation: Cash outflow from taxation was £nil in the three months ended 31 October 2012 compared to £0.1 million in the three months ended 31 October 2013. This cash outflow relates to tax payments by AA Ireland.

Capital expenditure and financial investment: Cash outflow from capital expenditure and financial investment was £6.2 million in both the three months ended 31 October 2012 and the three months ended 31 October 2013.

Acquisitions and disposals: Cash outflow from acquisitions and disposals was £8.7 million in the three months ended 31 October 2012 compared to £1.0 million in the three months ended 31 October 2013. The cash outflow from acquisition and disposals in the three months ended 31 October 2012 principally related to the final earnout for Drivetech (UK) Limited.

Proceeds from borrowings: Cash inflow from proceeds from borrowings was £nil in the three months ended 31 October 2012 compared to £361.3 million in the three months ended 31 October 2013. The cash inflow from proceeds from borrowings relates to the issue of new Class A1 and Class A2 notes by the Group in August 2013.

Issue costs from borrowings: Cash outflow from issue costs from borrowings was £nil in the three months ended 31 October 2012 compared to £18.5 million in the three months ended 31 October 2013. The cash outflow from issue costs from borrowings was driven by the new borrowings taken on by the Group in July 2013 and the issue of Class A1 and Class A2 notes in August 2013.

Repayment of borrowings: Cash outflow from the repayment of borrowings was £nil in the three months ended 31 October 2012 compared to £362.0 million in the three months ended 31 October 2013. The cash outflow from the repayment of borrowings relates to the repayment of the Senior Term Facility by the Group in August 2013.

Repayment of capital element of finance leases: Cash outflow from repayment of capital element of finance leases was £0.8 million in the three months ended 31 October 2012 compared to £4.1 million in the three months ended 31 October 2013. The increase in cash outflow from repayment of capital element of finance leases was primarily driven by timing differences on leasing payments.

Payments to group treasury: Cash outflow from payments to group treasury was £110.6 million in the three months ended 31 October 2012 compared to £nil in the three months ended 31 October 2013. The decrease in cash outflow from payments to group treasury is due to the cessation of payments to Acromas group treasury following the financing transaction in July 2013.

Other Liabilities

Defined benefit pension liabilities: As at 31 October 2013, defined benefit pension liabilities were £281.0 million compared to £178.6 million as at 31 October 2012. This increase in liabilities is due to a reduction in the corporate bond yield used as the discount factor in determining the present value of our future pension liabilities as well as the £38.0 million release of the AA UK pension scheme deferred tax asset following the asset-backed funding scheme outlined in note 15.

Signed for and on behalf of the Board by:

A K Boland

Chief Financial Officer

17 December 2013

Interim condensed consolidated profit and loss account for the three months ended 31 October 2013

	Notes	Three months ended October 2013 £m	Three months ended October 2012 £m	Year ended January 2013 £m
Turnover	2	244.0	242.0	968.0
Cost of sales		(86.7)	(88.6)	(349.4)
Gross profit		157.3	153.4	618.6
Administrative and marketing expenses		(112.1)	(135.1)	(466.8)
Other operating income		-	0.3	1.4
Operating profit before share of profits in associates		45.2	18.6	153.2
Share of profits in associates		-	-	0.7
Operating profit		45.2	18.6	153.9
Trading EBITDA	2	104.0	96.1	394.6
Items not allocated to a segment	2	(1.5)	1.0	(4.3)
Depreciation		(10.1)	(9.6)	(37.9)
Goodwill amortisation		(42.1)	(42.1)	(168.5)
Exceptional items	2	(5.1)	(26.8)	(30.0)
Operating profit		45.2	18.6	153.9
Profit on sale of joint venture		0.5	-	3.1
Net interest payable and similar charges	3	(60.1)	(1.2)	(5.3)
(Loss)/profit on ordinary activities before taxation		(14.4)	17.4	151.7
Taxation	4	(9.7)	(8.3)	(78.2)
(Loss)/profit for the period		(24.1)	9.1	73.5

All amounts relate to continuing operations.

The notes on pages 19 to 32 form an integral part of these condensed financial statements.

Interim condensed consolidated profit and loss account for the nine months ended 31 October 2013

	Notes	Nine months ended October 2013 £m	Nine months ended October 2012 £m	Year ended January 2013 £m
Turnover	2	728.1	718.9	968.0
Cost of sales		(258.0)	(263.5)	(349.4)
Gross profit		470.1	455.4	618.6
Administrative and marketing expenses		(338.3)	(359.1)	(466.8)
Other operating income		-	1.3	1.4
Operating profit before share of profits in associates		131.8	97.6	153.2
Share of profits in associates		-	-	0.7
Operating profit		131.8	97.6	153.9
Trading EBITDA	2	307.8	286.0	394.6
Items not allocated to a segment	2	(6.5)	(5.5)	(4.3)
Depreciation	5	(29.5)	(28.6)	(37.9)
Goodwill amortisation		(126.3)	(126.2)	(168.5)
Exceptional items	2	(13.7)	(28.1)	(30.0)
Operating profit		131.8	97.6	153.9
Loss on disposal of subsidiary undertaking		(3.4)	-	-
Profit on sale of joint venture		0.5	3.1	3.1
Net interest payable and similar charges	3	(84.6)	(4.0)	(5.3)
Profit on ordinary activities before taxation		44.3	96.7	151.7
Taxation	4	(44.5)	(50.1)	(78.2)
(Loss)/profit for the period		(0.2)	46.6	73.5

All amounts relate to continuing operations.

The notes on pages 19 to 32 form an integral part of these condensed financial statements.

Interim condensed consolidated statement of total recognised gains and losses for the three and nine months ended 31 October 2013

	Three months ended		Nine months ended		Year ended
	October 2013 £m	October 2012 £m	October 2013 £m	October 2012 £m	January 2013 £m
(Loss)/profit for the period	(24.1)	9.1	(0.2)	46.6	73.5
Actuarial losses recognised on defined benefit pension schemes	(67.8)	(100.2)	(146.9)	(82.3)	(26.9)
Movement on deferred tax relating to defined benefit pension schemes	12.7	22.2	29.5	17.1	5.6
Exchange losses	(0.4)	(0.8)	(0.4)	(0.6)	(0.9)
Total recognised (losses)/gains relating to the period	(79.6)	(69.7)	(118.0)	(19.2)	51.3

Reconciliation of movements in consolidated shareholders' funds

	Three months ended		Nine months ended		Year ended
	October 2013 £m	October 2012 £m	October 2013 £m	October 2012 £m	January 2013 £m
Total recognised (losses)/gains relating to the period	(79.6)	(69.7)	(118.0)	(19.2)	51.3
Distribution of receivable due to immediate parent undertaking	-	-	(1,227.1)	-	-
Shareholders' funds brought forward	294.2	1,558.9	1,559.7	1,508.4	1,508.4
Shareholders' funds carried forward	214.6	1,489.2	214.6	1,489.2	1,559.7

The notes on pages 19 to 32 form an integral part of these condensed financial statements.

Interim condensed consolidated balance sheet as at 31 October 2013

	Notes	October 2013 £m	October 2012 £m	January 2013 £m
Fixed assets				
Intangible fixed assets		2,346.4	2,512.2	2,471.1
Tangible fixed assets	5	123.3	126.9	130.1
Investments		4.4	3.9	4.4
		2,474.1	2,643.0	2,605.6
Current assets				
Stocks		5.0	5.6	5.3
Debtors	6	1,398.3	1,572.1	1,585.6
Cash at bank and in hand	7	167.9	39.2	43.6
		1,571.2	1,616.9	1,634.5
Creditors falling due within one year	8	(516.2)	(2,517.1)	(2,476.6)
Net current assets/(liabilities)		1,055.0	(900.2)	(842.1)
Total assets less current liabilities		3,529.1	1,742.8	1,763.5
Creditors falling due after more than one year	9	(2,996.5)	(14.8)	(14.9)
Insurance technical provisions		-	-	(3.2)
Provisions for liabilities		(37.0)	(60.2)	(49.8)
Net assets excluding pensions		495.6	1,667.8	1,695.6
Defined benefit pension liabilities	14	(281.0)	(178.6)	(135.9)
Net assets including pensions		214.6	1,489.2	1,559.7
Capital and reserves				
Called up share capital		20.0	20.0	20.0
Currency translation reserve		(1.0)	(0.3)	(0.6)
Revaluation reserve		1,048.1	1,123.6	1,104.7
Profit and loss account		(852.5)	345.9	435.6
Total capital employed		214.6	1,489.2	1,559.7

Signed for and on behalf of the Board by

A K Boland

Chief Financial Officer

17 December 2013

The notes on pages 19 to 32 form an integral part of these condensed financial statements.

Interim condensed consolidated cash flow statement for the three months ended 31 October 2013

	Notes	Three months ended October 2013 £m	Three months ended October 2012 £m	Year ended January 2013 £m
Net cash inflow from operating activities	11	105.5	105.8	353.9
Returns on investment and servicing of finance	12	(17.3)	(0.5)	(3.8)
Taxation	12	(0.1)	-	(56.1)
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(6.2)	(6.2)	(21.9)
Acquisitions and disposals	12	(1.0)	(8.7)	(6.2)
Net cash inflow before financing		80.9	90.4	265.9
Financing				
Proceeds from borrowings (Class A1 and A2 notes)		361.3	-	-
Issue costs on borrowings		(18.5)	-	-
Repayment of borrowings (Senior Term Facility)		(362.0)	-	-
Repayment of capital element of finance leases		(4.1)	(0.8)	(12.0)
Payments to group treasury		-	(110.6)	(270.9)
		(23.3)	(111.4)	(282.9)
Overall increase/(decrease) in cash		57.6	(21.0)	(17.0)

The notes on pages 19 to 32 form an integral part of these condensed financial statements.

Interim condensed consolidated cash flow statement for the nine months ended 31 October 2013

	Notes	Nine months ended October 2013 £m	Nine months ended October 2012 £m	Year ended January 2013 £m
Net cash inflow from operating activities	11	319.4	278.6	353.9
Returns on investment and servicing of finance	12	(22.9)	(1.9)	(3.8)
Taxation	12	(7.5)	(0.4)	(56.1)
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(17.8)	(16.6)	(21.9)
Acquisitions and disposals	12	(9.6)	(6.2)	(6.2)
Net cash inflow before financing		261.6	253.5	265.9
Financing				
Proceeds from borrowings		3,416.3	-	-
Issue costs on borrowings		(91.8)	-	-
Repayment of borrowings (Senior Term Facility)		(362.0)	-	-
Payment to parent undertaking		(2,962.4)	-	-
Repayment of capital element of finance leases		(15.1)	(9.0)	(12.0)
Payments to group treasury		(122.3)	(265.0)	(270.9)
		(137.3)	(274.0)	(282.9)
Overall increase/(decrease) in cash		124.3	(20.5)	(17.0)

The notes on pages 19 to 32 form an integral part of these condensed financial statements.

Notes to the financial statements

1 Accounting policies

a Accounting convention

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United Kingdom and in accordance with pronouncements on interim reporting issued by the Financial Reporting Council (FRC). Accordingly, they do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 January 2013.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 January 2013 and have been applied consistently across all periods.

The Group has long-term contracts with a number of suppliers across different industries and its operating activities are highly cash generative. The directors have considered this together with projected cash flows and have concluded that the Group has sufficient funds to continue trading for this period, and the foreseeable future. Therefore, the interim condensed consolidated financial statements have been prepared using the going concern basis.

The nature of the Group's operations means that for management's decision making and internal performance management the key performance metric is earnings before interest, tax, depreciation and amortisation (EBITDA) by trading segment which excludes exceptional items and certain unallocated items (referred to as Trading EBITDA). Items not allocated to a segment relate to transactions that do not form part of the on-going segment performance and include transactions which are one-off in nature. In the current period, these principally relate to the difference between the cash contributions to the pension schemes for on-going service and the calculated annual service cost. Trading EBITDA is further analysed as part of the segmental analysis in note 2.

b Basis of consolidation

The interim condensed consolidated financial statements incorporate the financial statements of the Company and each of its subsidiaries excluding AA Bond Co Limited. The results of undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

An associate is an undertaking in which the Group has a long-term equity interest and over which it exercises significant influence. In the consolidated financial statements, associates are accounted for using the equity method.

Certain of the Group's activities are conducted through joint arrangements that are not entities and are included in the consolidated financial statements in proportion to the Group's interest in the income, expenses, assets and liabilities of these joint arrangements.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

c Goodwill

Goodwill is the difference between the fair value of the consideration paid for an acquired entity and the aggregate of the fair values of that entity's separately identifiable assets and liabilities. Positive goodwill is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life through the profit and loss account.

The Company prepared its first set of consolidated accounts for the year ended 31 January 2013. For acquisitions prior to September 2007 when Acromas Holdings Limited acquired the Group, the Company has taken on the carrying value of goodwill and accumulated amortisation from the consolidated financial statements of Acromas Holdings Limited.

2 Segmental analysis

	Three months ended		Nine months ended		Year ended
	October 2013 £m	October 2012 £m	October 2013 £m	October 2012 £m	January 2013 £m
Turnover					
Roadside Assistance	173.4	167.8	519.5	503.0	679.3
Insurance Services	37.4	40.9	112.9	121.2	162.1
Driving Services	23.0	23.7	65.4	68.7	91.3
AA Ireland	10.2	9.6	30.3	29.0	38.3
Insurance Underwriting	-	-	-	-	-
Trading turnover	244.0	242.0	728.1	721.9	971.0
Turnover not allocated to a segment	-	-	-	(3.0)	(3.0)
Turnover	244.0	242.0	728.1	718.9	968.0
Operating profit					
Roadside Assistance	77.3	71.7	234.3	215.6	296.4
Insurance Services	21.7	22.9	63.9	63.8	89.2
Driving Services	4.5	3.5	11.1	10.5	14.5
AA Ireland	3.6	2.9	9.1	7.6	9.9
Insurance Underwriting	-	(0.2)	-	0.6	0.6
Head Office Costs	(14.0)	(15.1)	(42.4)	(42.9)	(56.9)
Trading operating profit	93.1	85.7	276.0	255.2	353.7
Amortisation not allocated to a segment	(41.3)	(41.3)	(124.0)	(124.0)	(165.5)
Items not allocated to a segment	(1.5)	1.0	(6.5)	(5.5)	(4.3)
Exceptional items	(5.1)	(26.8)	(13.7)	(28.1)	(30.0)
Operating profit	45.2	18.6	131.8	97.6	153.9

Items not allocated to a segment relate to transactions that do not form part of the on-going segment performance and include transactions which are one-off in nature. In the current period, these principally relate to the difference between the cash contributions to the pension schemes for on-going service and the calculated annual service cost.

Notes to the financial statements *(continued)*

2 Segmental analysis *(continued)*

Exceptional items for the three months ended 31 October 2013 include £3.3 million and the nine months ended 31 October 2013 include £9.9 million of costs relating to the financing transaction outlined in note 10, net of an exceptional gain of £1.7 million relating to the forgiveness of amounts owed to a parent undertaking. The remaining exceptional items of £1.8 million in the three months ended 31 October 2013 and £3.8 million in the nine months ended 31 October 2013 mainly relate to restructuring expenditure from the re-organising of Group operations.

Reconciliation of trading operating profit to trading EBITDA	Three months ended October 2013 £m	Three months ended October 2012 £m	Nine months ended October 2013 £m	Nine months ended October 2012 £m	Year ended January 2013 £m
Trading operating profit	93.1	85.7	276.0	255.2	353.7
Depreciation	10.1	9.6	29.5	28.6	37.9
Amortisation included in the segments	0.8	0.8	2.3	2.2	3.0
Trading EBITDA	104.0	96.1	307.8	286.0	394.6

Trading EBITDA	Three months ended October 2013 £m	Three months ended October 2012 £m	Nine months ended October 2013 £m	Nine months ended October 2012 £m	Year ended January 2013 £m
Roadside Assistance	83.2	77.3	251.3	233.1	318.8
Insurance Services	22.8	23.9	67.2	66.6	93.1
Driving Services	5.4	4.7	14.0	13.5	18.4
AA Ireland	4.1	3.6	11.3	9.6	13.0
Insurance Underwriting	-	(0.2)	-	0.6	0.6
Head Office Costs	(11.5)	(13.2)	(36.0)	(37.4)	(49.3)
Trading EBITDA	104.0	96.1	307.8	286.0	394.6

Turnover by destination is not materially different from turnover by origin. With the exception of AA Ireland, all other segments operate wholly in the UK.

During the three months ended July 2013, the management responsibility for the Group's Signs business was transferred from Driving Services to Roadside Assistance. As a result the above analysis has been restated to show the results from Signs within the Roadside Assistance segment for all periods.

Notes to the financial statements *(continued)*

3 Net interest payable and similar charges

	Three months ended		Nine months ended		Year ended
	October 2013 £m	October 2012 £m	October 2013 £m	October 2012 £m	January 2013 £m
Cash interest					
Debt interest payable	46.1	-	69.7	-	0.1
Finance charges payable under finance lease agreements	0.9	1.1	2.1	3.3	4.6
Other interest payable and similar charges	-	-	-	0.1	-
	47.0	1.1	71.8	3.4	4.7
Non cash interest					
Amortisation of debt issue costs	13.8	-	14.9	-	-
Unwinding of discount rate on provisions	0.1	0.1	0.2	0.3	0.3
Other finance costs in respect of pensions	(0.7)	0.2	(2.1)	0.6	0.6
Other finance charges	(0.1)	(0.2)	(0.2)	(0.3)	(0.3)
	13.1	0.1	12.8	0.6	0.6
Total net interest payable and similar charges	60.1	1.2	84.6	4.0	5.3

4 Taxation

The Group tax charge is made up as follows:

	Three months ended		Nine months ended		Year ended
	October 2013 £m	October 2012 £m	October 2013 £m	October 2012 £m	January 2013 £m
Current tax:					
UK corporation tax	-	-	-	0.2	0.1
Group relief payable	(10.5)	9.5	5.5	44.9	71.0
Adjustments relating to prior years	-	-	-	1.0	1.0
Foreign tax	0.6	0.2	1.1	0.8	1.0
Share of associate current tax	-	-	-	-	0.2
Group current tax	(9.9)	9.7	6.6	46.9	73.3
Deferred tax:					
Effect of tax rate change on opening balance	2.1	-	6.4	3.9	4.0
Origination and reversal of timing differences:					
Current year	17.5	(1.4)	31.5	(0.6)	1.5
Prior year	-	-	-	(0.1)	(0.6)
Group deferred tax	19.6	(1.4)	37.9	3.2	4.9
Tax on profit on ordinary activities	9.7	8.3	44.5	50.1	78.2

Notes to the financial statements *(continued)*

4 Taxation *(continued)*

We have calculated the tax charge based on the effective tax rate for the full year and applied this to the profit before tax for the period.

As a result of the borrowings outlined in note 10 and the asset-backed funding scheme for the AA UK pension scheme detailed in note 15, the Group has reduced its estimated liability for corporation tax for the year ended 31 January 2014. This has resulted in a £38.0 million release of the AA UK pension deferred tax asset which has been included within current year deferred tax timing differences. Additionally we have recognised a £10.9 million deferred tax asset for losses carried forward.

Deferred tax has been recognised at 20% for the UK and 12.5% for AA Ireland as at 31 October 2013.

The tax credit relating to exceptional items is outlined below:

	Three months ended		Nine months ended		Year ended
	October 2013 £m	October 2012 £m	October 2013 £m	October 2012 £m	January 2013 £m
Tax credit on exceptional items	1.3	3.8	3.3	4.0	4.3

5 Tangible fixed assets

	Freehold Land & Buildings £m	Long Leasehold Land & Buildings £m	Vehicles £m	Other assets £m	Total £m
Cost					
At 1 February 2012	28.3	8.1	74.8	156.4	267.6
Additions	-	-	3.9	15.7	19.6
Disposals	-	-	(4.5)	(0.3)	(4.8)
Exchange adjustment	-	(0.1)	-	(0.3)	(0.4)
At 31 October 2012	28.3	8.0	74.2	171.5	282.0
At 1 February 2013	28.3	8.0	69.4	177.4	283.1
Additions	-	0.9	5.7	16.7	23.3
Disposals	-	-	(4.4)	(0.4)	(4.8)
Exchange adjustment	-	-	0.1	(0.1)	-
At 31 October 2013	28.3	8.9	70.8	193.6	301.6
Depreciation					
At 1 February 2012	4.3	2.4	37.9	86.7	131.3
Charge for the period	0.5	0.3	12.1	15.7	28.6
Disposals	-	-	(4.3)	(0.2)	(4.5)
Exchange adjustment	-	-	-	(0.3)	(0.3)
At 31 October 2012	4.8	2.7	45.7	101.9	155.1
At 1 February 2013	4.9	2.9	37.1	108.1	153.0
Charge for the period	0.9	0.2	10.6	17.8	29.5
Disposals	-	-	(3.9)	(0.3)	(4.2)
Exchange adjustment	-	-	-	-	-
At 31 October 2013	5.8	3.1	43.8	125.6	178.3
Net book amount					
At 31 October 2013	22.5	5.8	27.0	68.0	123.3
At 31 October 2012	23.5	5.3	28.5	69.6	126.9

Notes to the financial statements *(continued)*

6 Debtors

	October 2013 £m	October 2012 £m	January 2013 £m
Trade debtors	133.4	155.1	147.9
Amounts owed by group undertakings – trading	0.4	105.1	121.9
Amounts owed by group undertakings – immediate parent undertaking	1,208.7	-	-
Amounts owed by group undertakings – payments to group treasury	-	1,244.9	1,250.8
Other debtors	4.2	19.8	15.0
Prepayments and accrued income	22.9	24.1	28.0
Deferred tax	28.7	23.1	22.0
	1,398.3	1,572.1	1,585.6

At 31 October 2012 and 31 January 2013, payments to group treasury mainly arose as the Group's cash balances are swept centrally by Acromas treasury in order to efficiently manage all of the Acromas Holdings Limited group cash balances. As these amounts did not arise directly from transactions relating to trading or operating activities they have been treated as a financing cash flow within the consolidated cash flow statement. As part of the financing transaction outlined in note 10, these amounts have been repaid or distributed.

As part of the financing transaction outlined in note 10, proceeds from the issuance of debt were loaned to the Company's immediate parent undertaking, AA Mid Co Limited. This balance is unsecured, has no repayment terms and bears no interest. AA Mid Co Limited does not have any amounts payable or receivable by group undertakings other than those within the Group.

The amounts owed by group undertakings classified as trading balances arose under arrangements permitted by the financing transaction documents. These balances are unsecured, payable within one month and bear no interest.

All amounts above are due in less than one year, except for deferred tax.

7 Cash at bank and in hand

	October 2013 £m	October 2012 £m	January 2013 £m
Cash at bank and in hand - available	147.1	6.6	8.8
Cash at bank and in hand - restricted	20.8	32.6	34.8
	167.9	39.2	43.6

Cash at bank and in hand includes balances held by and on behalf of the Group's insurance businesses which are subject to contractual or regulatory restrictions principally relating to AA Ireland. These amounts held are not readily available to be used for other purposes within the Group.

Notes to the financial statements *(continued)*

8 Creditors falling due within one year

	October 2013 £m	October 2012 £m	January 2013 £m
Obligations under finance lease agreements	12.5	14.1	17.8
Trade creditors	103.3	125.6	112.0
Amounts owed to group undertakings - trading	24.3	49.6	46.0
Amounts owed to group undertakings - other	-	1,964.2	1,973.3
Corporation tax	0.6	21.1	7.0
Other taxes and social security costs	22.3	24.3	21.6
Interest creditor	38.8	-	-
Other creditors	29.9	26.7	28.4
Accruals and deferred income	284.5	291.5	270.5
	516.2	2,517.1	2,476.6

At 31 October 2012 and 31 January 2013, amounts owed to group undertakings mainly related to amounts payable to the Company's parent undertaking. As part of the financing transaction outlined in note 10, these amounts have been cleared and replaced by an amount owed by the Company's parent undertaking (see note 6).

The amounts owed to group undertakings and classified as trading balances arose under arrangements permitted by the financing transaction documents. These amounts are unsecured, are payable between one and three months and bear no interest.

9 Creditors falling due after more than one year

	October 2013 £m	October 2012 £m	January 2013 £m
Borrowings (see note 10)	2,986.6	-	-
Obligations under finance lease agreements	9.0	13.5	13.6
Other creditors	0.9	1.3	1.3
	2,996.5	14.8	14.9

Other creditors and obligations under finance lease agreements are all due within 5 years of the balance sheet date.

Notes to the financial statements *(continued)*

10 Borrowings

	Expected Maturity Date	Principal	Issue costs	Amortised issue costs	Total
		£m	£m	£m	£m
Senior Term Facility	31 July 2018	1,413.0	(46.3)	13.3	1,380.0
Class A1 notes	31 July 2018	475.0	(2.9)	0.3	472.4
Class A2 notes	31 July 2025	500.0	(0.7)	0.1	499.4
Class B notes	31 July 2019	655.0	(21.4)	1.2	634.8
		3,043.0	(71.3)	14.9	2,986.6

Issue costs are shown net of any premium received on the issue of borrowings.

On 2 July 2013, the Group drew down £1,775 million under a Senior Term Facility and issued £300 million of 5-year Class A1 secured notes (the ‘Class A1 notes’), £325 million of 12-year Class A2 secured notes (the ‘Class A2 notes’) under the Class A £5 billion note program and £655 million of Class B secured notes (the ‘Class B notes’).

The Senior Term Facility carries interest at a rate related to LIBOR. The variable element has been fully hedged using matching interest rate swap arrangements. The fair value of these interest rate swaps as at 31 October 2013 was a liability of £16.7 million. The Class A1 notes carry interest at a fixed rate of 4.72%. The Class A2 notes carry interest at a fixed rate of 6.27%. The Class B notes carry interest at a fixed rate of 9.5%.

Also on 2 July 2013, the Group entered into (but did not draw) a Working Capital Facility of £150.0 million and a Liquidity Facility of £220.0 million incurring issue costs of £5.5 million and £3.8 million respectively. These costs were written off in July 2013.

On 27 August 2013, the Group issued a further £175.0 million of Class A1 notes and £175.0 million of Class A2 notes. These were issued at a premium of £4.3 million and £7.0 million respectively. The proceeds from this issue were used to fund the repayment of £362.0 million of the Senior Term Facility and as a result, the amortisation of the associated issue fees has been accelerated and an additional £8.9 million has been written off in the period.

In order to show the Group’s net borrowing, the notes and the issue costs have been offset. All of the Class A notes and Senior Term Facility are secured by first ranking security in respect of the undertakings and assets of AA Intermediate Co Limited and its subsidiaries. The Class A facility security over the Group’s assets ranks ahead of the Class B notes. The Class B notes have first ranking security over the assets of the immediate parent undertaking of the Group, AA Mid Co Limited.

Notes to the financial statements *(continued)*

11 Reconciliation of operating profit to net cash flow from operating activities

	Three months ended		Nine months ended		Year ended
	October 2013 £m	October 2012 £m	October 2013 £m	October 2012 £m	January 2013 £m
Operating profit	45.2	18.6	131.8	97.6	153.9
Amortisation of goodwill	42.1	42.1	126.3	126.2	168.5
Depreciation of tangible fixed assets	10.1	9.6	29.5	28.6	37.9
Less other operating income	-	(0.3)	-	(1.3)	(1.4)
Less share of profits in associates	-	-	-	-	(0.7)
(Increase)/decrease in stock	(0.2)	0.3	0.3	(0.3)	-
Decrease in debtors	11.5	23.9	19.8	40.1	2.4
(Decrease)/increase in creditors	(2.5)	18.9	30.1	12.5	25.5
(Decrease)/increase in provisions	(2.2)	23.0	(12.8)	19.0	11.0
Decrease in underwriting technical insurance provisions	-	(30.6)	(1.1)	(37.3)	(36.6)
Difference between pension charge and cash contributions	1.5	0.3	(4.5)	(6.5)	(6.6)
Change in working capital	8.1	35.8	31.8	27.5	(4.3)
Net cash inflow from operating activities	105.5	105.8	319.4	278.6	353.9

The cash inflow from operating activities is stated net of cash outflows relating to exceptional items. Exceptional cash flows relate to costs incurred as part of the financing transaction, restructuring expenditure costs from the reorganising of Group operations and onerous property provision lease costs in respect of vacant properties and are outlined below:

	Three months ended		Nine months ended		Year ended
	October 2013 £m	October 2012 £m	October 2013 £m	October 2012 £m	January 2013 £m
Financing transaction	5.1	-	9.9	-	-
Restructuring costs	2.4	2.8	14.0	5.1	13.4
Onerous property provisions	1.4	0.9	3.9	2.9	4.4
	8.9	3.7	27.8	8.0	17.8

Notes to the financial statements *(continued)*

11 Reconciliation of operating profit to net cash flow from operating activities *(continued)*

Analysis of movement in working capital split between available and restricted

	Three months ended		Nine months ended		Year ended
	October 2013 £m	October 2012 £m	October 2013 £m	October 2012 £m	January 2013 £m
Change in working capital:					
Available	8.2	34.7	31.9	26.2	(4.9)
Restricted	(0.1)	1.1	(0.1)	1.3	0.6
Overall change in working capital	8.1	35.8	31.8	27.5	(4.3)

Analysis of cash flow from operating activities between operating and restricted

	Three months ended		Nine months ended		Year ended
	October 2013 £m	October 2012 £m	October 2013 £m	October 2012 £m	January 2013 £m
Cash flows from operating activities:					
Available	107.8	125.1	324.8	298.7	372.2
Restricted	(2.3)	(19.3)	(5.4)	(20.1)	(18.3)
Net cash inflow from operating activities	105.5	105.8	319.4	278.6	353.9

12 Analysis of cash flows

	Three months ended		Nine months ended		Year ended
	October 2013 £m	October 2012 £m	October 2013 £m	October 2012 £m	January 2013 £m
Returns on investment and servicing of finance					
Interest received	0.1	-	0.3	0.9	0.9
Interest paid on borrowings	(17.0)	-	(21.6)	(0.1)	(0.1)
Interest on finance leases	(0.4)	(0.5)	(1.6)	(2.7)	(4.6)
	(17.3)	(0.5)	(22.9)	(1.9)	(3.8)
Taxation					
Corporation tax paid	-	-	(7.0)	-	(2.8)
Group relief paid to other entities in the Acromas group	-	-	-	-	(52.3)
Overseas tax paid	(0.1)	-	(0.5)	(0.4)	(1.0)
	(0.1)	-	(7.5)	(0.4)	(56.1)

Notes to the financial statements *(continued)*

12 Analysis of cash flows *(continued)*

	Three months ended		Nine months ended		Year ended
	October 2013 £m	October 2012 £m	October 2013 £m	October 2012 £m	January 2013 £m
Acquisitions and disposals					
Purchase of subsidiary undertakings	(1.4)	(9.1)	(1.4)	(9.7)	(9.7)
Cash disposed of on sale of subsidiary undertaking	-	-	(8.6)	-	-
Proceeds from disposal of joint venture	0.4	-	0.4	3.1	3.1
Net cash acquired with subsidiaries	-	0.4	-	0.4	0.4
	(1.0)	(8.7)	(9.6)	(6.2)	(6.2)

Immediately prior to the financing, there was a restructuring of the Group's balance sheet such that inter-group funding balances with the broader Acromas group were repaid or distributed, generating a non-cash dividend of £1,227.1 million.

As part of the refinancing outlined in note 10, the Group sold its subsidiary undertaking, Acromas Reinsurance Company Limited to a parent undertaking. This subsidiary had cash balances of £8.6 million at the time of disposal.

In the year ended 31 January 2010, the Group sold its interest in its joint venture, Automobile Association Personal Finance Limited, and continues to receive proceeds from this sale.

13 Analysis of net debt

	Cash at bank and in hand £m	Finance lease £m	Borrowings £m	Payments to group treasury £m	Other inter-company £m	Net debt £m
At 1 February 2012	60.1	(33.5)	-	979.9	(1,826.1)	(819.6)
Cash flows	(20.5)	9.0	-	265.0	-	253.5
Exchange differences	(0.4)	-	-	-	-	(0.4)
Other non-cash movement	-	(3.1)	-	-	(82.6)	(85.7)
At 31 October 2012	39.2	(27.6)	-	1,244.9	(1,908.7)	(652.2)
At 1 February 2013	43.6	(31.4)	-	1,250.8	(1,897.4)	(634.4)
Cash flows	124.3	15.1	(2,962.5)	122.3	2,962.4	261.6
Distribution of receivable	-	-	-	(1,373.1)	146.0	(1,227.1)
Exchange differences	-	-	-	-	-	-
Other non-cash movement	-	(5.2)	(24.1)	-	(26.2)	(55.5)
At 31 October 2013	167.9	(21.5)	(2,986.6)	-	1,184.8	(1,655.4)

Notes to the financial statements *(continued)*

13 Analysis of net debt *(continued)*

Other intercompany – reconciliation to the balance sheet

	Note	October 2013 £m	October 2012 £m	January 2013 £m
Amounts owed by group undertakings – trading	6	0.4	105.1	121.9
Amounts owed by group undertakings – immediate parent undertaking	6	1,208.7	-	-
Amounts owed to group undertakings - trading	8	(24.3)	(49.6)	(46.0)
Amounts owed to group undertakings - other	8	-	(1,964.2)	(1,973.3)
		1,184.8	(1,908.7)	(1,897.4)

14 Pension costs and other post-retirement benefits

The Group operates two wholly funded defined benefit pension schemes: the AA UK Pension Scheme (AAUK) and the AA Ireland Pension Scheme (AAROI). Certain AA employees are also members of an unfunded post-retirement Private Medical Plan scheme (AAPMP), which is a defined benefit scheme. The amounts recognised in the balance sheet are as follows:

As at October 2013

	AAUK £m	AAROI £m	AAPMP £m	Total £m
Fair value of scheme assets	1,563.9	36.4	-	1,600.3
Present value of defined benefit obligation	(1,789.7)	(55.6)	(50.6)	(1,895.9)
Defined benefit scheme liability	(225.8)	(19.2)	(50.6)	(295.6)
Related deferred tax asset	7.2	2.4	5.0	14.6
Liability recognised in the balance sheet	(218.6)	(16.8)	(45.6)	(281.0)

As at October 2012

	AAUK £m	AAROI £m	AAPMP £m	Total £m
Fair value of scheme assets	1,378.6	32.1	-	1,410.7
Present value of defined benefit obligation	(1,534.2)	(51.3)	(45.2)	(1,630.7)
Defined benefit scheme liability	(155.6)	(19.2)	(45.2)	(220.0)
Related deferred tax asset	35.1	2.4	3.9	41.4
Liability recognised in the balance sheet	(120.5)	(16.8)	(41.3)	(178.6)

As at January 2013

	AAUK £m	AAROI £m	AAPMP £m	Total £m
Fair value of scheme assets	1,501.7	33.7	-	1,535.4
Present value of defined benefit obligation	(1,598.5)	(55.1)	(47.5)	(1,701.1)
Defined benefit scheme liability	(96.8)	(21.4)	(47.5)	(165.7)
Related deferred tax asset	22.3	2.8	4.7	29.8
Liability recognised in the balance sheet	(74.5)	(18.6)	(42.8)	(135.9)

Notes to the financial statements *(continued)*

14 Pension costs and other post-retirement benefits *(continued)*

The principal assumptions used by the independent qualified actuaries to calculate the liabilities under FRS17 (Retirement benefits) are set out below:

	October 2013	October 2012	January 2013
Discount rate	4.3%	4.5%	4.7%
Inflation assumption	3.4%	2.8%	3.4%
Medical premium inflation (AAPMP scheme only)	7.4%	6.8%	7.4%

The increase in the pension liability from 31 January 2013 to 31 October 2013 is mainly driven by the reduction in the discount rate assumption.

At 31 October 2013, the deferred tax asset shown against the AAUK pension liability has been reduced by £38.0 million following the recognition of the tax deductibility of the asset-backed funding scheme detailed in note 15.

15 Post balance sheet events

On 29 November 2013, the Group issued £500 million of Class A3 bonds which have an expected maturity date of 31 July 2020 and carry interest at a fixed rate of 4.24%. The proceeds of this bond issuance were used to fund the repayment of £500 million of the Senior Term Facility. In addition the Group entered into a fixed to variable interest rate swap with a notional amount of £500 million to partially offset the net £1,413 million variable to fixed interest rate swaps entered into in July 2013 and August 2013. As a result of these transactions the amount outstanding under the Senior Term Facility reduced to £913 million.

On 29 November 2013, the Group completed the pension scheme triennial valuation, agreeing a deficit of £200 million with the Pension Trustees and implementing the asset-backed funding scheme. This gives an annual deficit reduction contribution of £12.2 million, which increases with inflation over a period of up to twenty five years secured on the Group’s brands and affords us a one-off £198 million tax deduction that the Group can utilise within the next two years. This secured twenty five year deficit reduction plan compares with a traditional unsecured deficit reduction plan requiring the deficit to be removed over a substantially shorter period.