AA INTERMEDIATE CO LIMITED

COMPANY REGISTRATION NUMBER: 5148845

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JANUARY 2013

Directors' report

The directors present their report and audited consolidated financial statements of AA Intermediate Co Limited ("the Company") and its subsidiary undertakings for the year ended 31 January 2013.

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

J A Goodsell
S M Howard
A J P Strong

A K Boland was appointed a director on 1 April 2013.

The Company changed its name from AA Junior Mezzanine Co Limited to AA Intermediate Co Limited on 21 March 2013.

Principal activity and review of business developments

AA Intermediate Co Limited and its subsidiary undertakings (together "the Group") is the largest 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 Acromas group was formed in 2007 through the acquisition of the AA and Saga creating one of the UK's leading affinity businesses.

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 70% of Group turnover). The AA is recognised nationally as 'the 4th Emergency Service'.

The AA is the clear market leader with over 40% market share of the £1.5 billion Roadside Assistance market with a loyal customer base that actively use their breakdown cover. In the year ended 31 January 2013 the AA attended over 3.6 million breakdowns and has achieved the highest overall test score from Which? for a major breakdown provider for the last five years. The business is characterised by stable and predictable revenue streams, strong operating margins and high cash conversion.

The other business segments that the AA operates are Insurance Services and Driving Services. The AA business strategy is to cross-sell Insurance Services to its membership utilising its marketing database and multiple points of contact with its customers.

The AA operations in Ireland cover all these segments, however they are managed and reported on separately from the UK-based business.

The AA has historically provided reinsurance to the motor underwriting activities elsewhere in the Acromas group (disclosed under the Insurance Underwriting segment) although there was no such activity in the year ended 31 January 2013. This segment was disposed of to another Acromas group company post year end.

Directors' report (continued)

Principal activity and review of business developments (continued)

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

	2013	2012
Turnover (£m)	**968.0**	973.9
Trading EBITDA (£m)	**394.6**	368.1
Trading EBITDA margin [1] (%)	**40.8%**	37.8%
Available cash inflow from operating activities (£m)	**372.2**	348.9
Cash conversion [2] (%)	**94.3%**	94.8%

[1]Trading EBITDA divided by turnover arising within operating segments
[2]Available cash inflow from operating activities divided by trading EBITDA

Trading EBITDA (earnings before interest, tax, depreciation and amortisation) is used as a key measure of underlying performance. This measure excludes exceptional items and costs not allocated to a business segment, which principally relate to an element of management charges from the Acromas group for accessing group services.

Group turnover declined to £968.0m in the year ended 31 January 2013 (2012: £973.9m) due to the curtailment of insurance underwriting activities. Excluding insurance underwriting, the Group achieved sales growth of 2.1% in 2013 (2012: 4.5%) primarily through growth in Roadside Assistance.

Group operating profit increased by 9% to £153.9m in the year ended 31 January 2013 (2012: £141.3m). Group trading EBITDA, which gives a better view of the underlying trading of the business, showed growth of 7.2% to £394.6m (2012: £368.1m) as a result of continued growth in Roadside Assistance and, following investment in the development of home emergency services, within the Insurance Services segment.

The AA conducted a cost reduction exercise in the final quarter of the year ended 31 January 2013. Exceptional costs of £30.0m were incurred during the year to implement this exercise and the associated cost savings contributed to Group trading EBITDA growth in the year. However, the majority of the benefits of this exercise are expected to be seen in the year ended 31 January 2014.

The net interest payable for the year was £5.3m (2012: £2.9m) which principally relates to interest payable on finance leases.

After net interest payable the Group made a profit before taxation of £151.7m (2012: £139.0m). A retained profit after tax of £73.5m (2012: £61.4m) has been taken to reserves. No dividends have been paid during the year (2012: £nil).

The AA demonstrates strong cash flow generation and has consistently done so for many years. In the year ended 31 January 2013, available cash inflow from operating activities was £372.2m (2012: £348.9m). The Acromas group operates a centralised treasury function whereby cash that is not required within the business is remitted to the Acromas group treasury function. In the year ended 31 January 2013 the AA remitted £270.9m to Acromas group treasury (2012: £248.9m).

Directors' report (continued)

Principal activity and review of business developments (continued)

Roadside Assistance

	2013	2012
Turnover (£m)	**674.1**	645.3
Operating profit (£m)	**295.5**	275.5
Trading EBITDA (£m)	**317.6**	298.9
Trading EBITDA margin (%)	**47.1%**	46.3%
Personal members ('000)	**4,093**	4,121
Business customers ('000)	**8,652**	8,501
Breakdowns attended ('m)	**3.7**	3.4
Average income per member (£)	**118**	114

The Roadside Assistance segment is the largest part of the AA business. The AA provides a nationwide service, sending patrols out to members stranded at the side of the road, repairing their vehicles where possible and getting them back on their way quickly and safely. Last year, the AA attended an average of 10,000 breakdowns a day all over the UK covering personal members and those business customers who receive cover through an AA business customer.

The Roadside Assistance growth in turnover in the year ended 31 January 2013 was driven by increased customer retention rates and average income per member. Income also increased (as a result of the bad weather experienced in the year) from business customers who typically pay for the AA's services on a usage business. The increase in operating profit and EBITDA also reflects the performance of the operations teams in delivering efficiency gains during the course of the year. Specific investment in marketing and membership retention activities in the year ended 31 January 2012 reduced trading EBITDA margins in that year to the benefit of the trading results for the year ended 31 January 2013.

Insurance Services

	2013	2012
Turnover (£m)	**162.1**	168.4
Operating profit (£m)	**89.2**	84.6
Trading EBITDA (£m)	**93.1**	87.3
Trading EBITDA margin (%)	**57.4%**	51.8%
Policy numbers[1] ('000)	**2,538**	2,758

[1] Excluding business customers

The Insurance Services segment includes the insurance brokerage activities of the AA, primarily in arranging motor and home insurance for customers, its home emergency activities and intermediary financial services business.

Directors' report (continued)

Principal activity and review of business developments (continued)

Insurance Services (continued)

While the market for motor insurance has remained particularly competitive, the AA has focused its efforts on providing its panel of underwriters with information to ensure that they can accurately price risk and focus on areas of the market where the AA has a competitive advantage. The results of this has been growing numbers of Roadside Assistance members who have motor insurance arranged by the AA and improved retention rates. The AA home insurance business has continued to grow in terms of both policies-in-force and profitability. After a period of investment in the years ended 31 January 2011 and 31 January 2012, the AA home emergency activities delivered profitable growth in the year ended 31 January 2013 with a growing book of policy holders and business customers. In total, the AA provides home emergency cover to 1.2 million householders in the UK from a business established in 2011.

Driving Services

	2013	2012
Turnover (£m)	**96.5**	96.9
Operating profit (£m)	**15.4**	11.6
Trading EBITDA (£m)	**19.6**	15.1
Trading EBITDA margin (%)	**20.3%**	15.6%

The Driving Services segment contains the AA Driving School and the British School of Motoring, which are the two largest driving schools in the UK, as well as AA Drivetech, which provides driver training and educative programmes. The Driving Services segment also includes the AA's publishing and related media activities. During the year ended 31 January 2013, Driving Services showed growth in trading EBITDA of 29.8% driven by continued growth in AA Drivetech activities and as a result of the restructuring of the Group's publishing activities in the year ended 31 January 2012. The Driving Services segment acquired Peak Performance, a driver training business, in the year ended 31 January 2013 and IDS, a driver risk services company, in the year ended 31 January 2012.

AA Ireland

	2013	2012
Turnover (£m)	**38.3**	42.3
Operating profit (£m)	**9.9**	11.2
Trading EBITDA (£m)	**13.0**	14.2
Trading EBITDA margin (%)	**33.9%**	33.6%
Personal members ('000)	**112**	115
Policy numbers ('000)	**177**	176

The AA Ireland business competes in the same segment types as the AA UK business, with the largest part of their business being Roadside Assistance and Insurance Services. Despite the economic recession in the Republic of Ireland, the business has continued to perform well demonstrating the resilience of the AA business model. The results above are quoted using historic exchange rates and therefore in the year ended 31 January 2013 results are impacted by the weakening of sterling against the Euro. Excluding the impact of currency translation the trading results for the years ended 31 January 2012 and 31 January 2013 have been broadly flat.

Directors' report (continued)

Principal activity and review of business developments (continued)

Insurance Underwriting

	2013	2012
Turnover (£m)	**-**	25.8
Operating profit (£m)	**0.6**	2.0
Trading EBITDA (£m)	**0.6**	2.0
Trading EBITDA margin (%)	**-**	7.8%

The Insurance Underwriting segment consists of the Acromas group's reinsurance vehicle, which reinsures certain private motor insurance business from the Acromas group's dedicated underwriter, Acromas Insurance Company Limited (AICL). AICL principally underwrites motor insurance for Saga. Over the past two years this business has been reduced and no business was written during the year ended 31 January 2013.

Head Office costs

	2013	2012
Turnover (£m)	**-**	-
Operating profit (£m)	**(56.9)**	(56.4)
Trading EBITDA (£m)	**(49.3)**	(49.4)

Head Office costs, which include IT, finance, property and other back office support functions, have remained relatively flat over the historic period with cost inflation being contained through an on-going programme of cost management.

Principal risks and uncertainties

The Group follows a structured, proactive risk identification and assessment process that involves all of its Directors and which is updated on an on-going basis.

The key risks that the Group manages are those that could impact on the perception of the AA brand in the eyes of its customers or the public generally, those posed by the operational challenges within its Roadside Assistance business, and the systems and processes that support the effective delivery of a high quality of service to customers. In addition, external factors, such as extremes in temperature, can significantly increase the workload and threaten customer service levels in the short term.

The AA seeks to manage threats to the perception of the AA brand through investment in operational capability and training to ensure the best possible service at the roadside for its customers and via a policy of active engagement with the media through its public relations activities. The operational resilience of systems and processes are tested on an on-going basis and supported by business continuity plans.

The AA operates as an intermediary in the personal lines insurance market which is subject to significant competition and is impacted by factors outside its immediate control. In addition, the continuously changing regulatory environment for our insured products and services requires constant monitoring to ensure continued compliance.

Directors' report (continued)

Principal risks and uncertainties (continued)

Extensive use of operational and financial information is made to monitor the performance of the business and the external environment allowing the management team to take action when appropriate. In addition, the AA has dedicated internal audit, risk management, quality monitoring, health and safety and regulatory compliance resources supporting the management team.

The Group has historically been a guarantor to Acromas Mid Co Limited borrowings of senior and mezzanine debt. These guarantees were extinguished post year end as described under post balance sheet events.

Corporate and social responsibility

The AA Charitable Trust for Road Safety and the Environment (registered charity number 1125119) promotes safer and more responsible driving through education and training. The Drive Smart initiative offers free safe and fuel efficient driving training for new drivers most at risk and is supported by the Department for Transport and the police.

Drive Confident is aimed at lapsed or rusty drivers. Over the last year the Trust has provided more than 7,000 free courses for vulnerable drivers and has started a new initiative to help disadvantaged teenagers in residential care to learn to drive. The Trust was awarded a prestigious Prince Michael of Kent International Road Safety Award in recognition of its practical work in road safety.

During the year ended 31 January 2013, staff at the AA's Fanum House headquarters were responsible for raising over £20,000 for Stepping Stones DS, a support group for local families with a Down Syndrome child. This is in addition to a further £44,000 raised at other AA offices for staff-nominated charities. Nationally, the AA supports two charities - BEN (the Automotive Industry Charity) and the AA Charitable Trust. In the year ended 31 January 2013, support for these two charities has been over £175,000.

The AA diverted 75.9% of waste from landfill during the year; this was 5.9% above the target and an improvement on the previous year. The AA Road Operations are certified to ISO14001 (environmental accreditation). AA Fuel Assist recycles contaminated fuels. AA patrol vehicles are automatically monitored for use of fuel and excessive idling. AA patrols are trained in eco driving techniques. AA patrols operate electric vans and scooters in London. AA staff can recharge their electric vehicles using charging points at the Basingstoke and Oldbury offices.

The AA also promotes Bikeability (cycle proficiency) courses and campaigns for greater harmony between drivers and cyclists.

Employees

During the year the Group companies have maintained the practice of keeping employees informed about current activities and progress by various methods including a regular staff magazine. Employee participation, involvement and feedback is encouraged through, for example, the employee survey and group wide suggestion schemes.

It is the policy of the Group to continue to develop and promote a safe working environment and to offer terms and conditions of service to provide disabled persons with the appropriate skills and qualifications opportunities to seek employment with the Group. Whenever practicable, it is the Group's policy to retain in employment employees who become disabled and give all such employees equal consideration for training and career development to enable them to fulfil their potential.

Directors' report (continued)

Disclosure of information to the auditors

Each current director has made enquiries of their fellow directors and the Group'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 the 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.

Statement of directors' responsibilities

The Directors are responsible for preparing the Directors' Report and the 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and Group and the profit or loss of the Company and Group 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;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company, or the Group, 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

It is the Group's policy to maintain indemnity insurance for directors and officers.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance, position and risk management objectives are described in the business review on pages 1-6.

The Group has long-term contracts with a number of suppliers across different industries and its operating activities are highly cash generative. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Directors have considered the impact of the refinancing described in note 31 to the financial statements, reviewing cash flow projections and financial covenant forecasts. The Directors have concluded that the Group has sufficient funds to continue trading for the foreseeable future, being at least one year from the date of signing of these financial statements. Therefore, the financial statements have been prepared using the going concern basis.

Directors' report (continued)

Post balance sheet events

On 2 July 2013, the Group completed a debt refinancing of its business, raising £3.055 billion using a combination of £1.280 billion of publicly traded bonds and £1.775 billion of bank debt. The proceeds of the refinancing have been remitted to the Acromas group to partially repay Acromas Mid Co Limited's bank debt, in return for the release of the guarantees previously provided by the Group and the Company outlined in note 29. The Group no longer remits cash to Acromas group treasury and provides security to the new lenders via a combination of fixed and floating charges and the Company is now a Guarantor to the Group debt. The interest rate risk associated with this new capital structure has been fully hedged using interest rate swaps.

On 9 August 2013, the Group issued a further £350m of bonds under its existing bond issuance programme and used the proceeds to repay part of its bank debt.

BY ORDER OF THE BOARD

A K BOLAND
DIRECTOR
5 September 2013

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

Registered number: 05148845

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AA INTERMEDIATE CO LIMITED

We have audited the financial statements of AA Intermediate Co Limited for the year ended 31 January 2013 which comprise the consolidated profit and loss account, consolidated statement of total recognised gains and losses, reconciliation of movements in consolidated shareholder's funds, consolidated balance sheet, consolidated cash flow statement and Company balance sheet and the related notes 1 to 33. 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 7, 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. 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 Group and the Company's affairs as at 31 January 2013 and of its consolidated profits for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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.

Kevin Senior (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London

5 September 2013

Consolidated profit and loss account for the year ended 31 January 2013

	Notes	**2013 £m**	2012 £m
Turnover	2	**968.0**	973.9
Cost of sales	4	**(349.4)**	(385.2)
Gross profit		**618.6**	588.7
Administrative and marketing expenses	4	**(466.8)**	(450.2)
Other operating income	3	**1.4**	2.4
Operating profit before share of profits in associates		**153.2**	140.9
Share of profits in associates		**0.7**	0.4
Operating profit	4	**153.9**	141.3
Trading EBITDA	2	**394.6**	368.1
Items not allocated to a segment	2	**(4.3)**	(5.0)
Depreciation	11	**(37.9)**	(36.7)
Goodwill amortisation	10	**(168.5)**	(168.4)
Exceptional items	4	**(30.0)**	(16.7)
Operating profit	4	**153.9**	141.3
Profit on sale of joint venture		**3.1**	0.6
		157.0	141.9
Net interest payable and similar charges	6	**(5.3)**	(2.9)
Profit on ordinary activities before taxation		**151.7**	139.0
Taxation	9	**(78.2)**	(77.6)
Profit for the financial year	22	**73.5**	61.4

All amounts relate to continuing operations.

The notes on pages 15 to 43 form an integral part of these financial statements.

Consolidated statement of total recognised gains and losses for the year ended 31 January 2013

	Notes	**2013 £m**	2012 £m
Profit for the financial year		**73.5**	61.4
Actuarial losses recognised on defined benefit pension schemes	26	**(26.9)**	(33.8)
Movement on deferred tax on defined benefit pension schemes	9	**5.6**	7.8
Exchange losses		**(0.9)**	(0.1)
Total recognised gains and losses relating to the year		**51.3**	35.3

Reconciliation of movements in consolidated shareholder's funds

	2013 £m	2012 £m
Total recognised gains and losses relating to the year	**51.3**	35.3
Shareholder's funds brought forward	**1,508.4**	1,473.1
Shareholder's funds carried forward	**1,559.7**	1,508.4

The notes on pages 15 to 43 form an integral part of these financial statements.

Consolidated balance sheet as at 31 January 2013

	Notes	**2013 £m**	2012 £m
Fixed assets			
Intangible fixed assets	10	**2,471.1**	2,637.1
Tangible fixed assets	11	**130.1**	136.3
Investments	12	**4.4**	3.9
		2,605.6	2,777.3
Current assets			
Stocks	13	**5.3**	5.3
Debtors	14	**1,585.6**	1,312.9
Cash at bank and in hand	15	**43.6**	60.1
		1,634.5	1,378.3
Creditors falling due within one year	16	**(2,476.6)**	(2,431.0)
Net current liabilities		**(842.1)**	(1,052.7)
Total assets less current liabilities		**1,763.5**	1,724.6
Creditors falling due after more than one year	17	**(14.9)**	(25.0)
Insurance technical provisions	19	**(3.2)**	(39.8)
Provisions for liabilities	20	**(49.8)**	(38.8)
Net assets excluding pensions		**1,695.6**	1,621.0
Defined benefit pension liabilities	26	**(135.9)**	(112.6)
Net assets including pensions		**1,559.7**	1,508.4
Capital and reserves			
Called up share capital	21	**20.0**	20.0
Currency translation reserve	22	**(0.6)**	0.3
Revaluation reserve	22	**1,104.7**	1,180.2
Profit and loss account	22	**435.6**	307.9
Shareholder's funds		**1,559.7**	1,508.4

Signed for and on behalf of the Board by

A K Boland

Director

5 September 2013

The notes on pages 15 to 43 form an integral part of these financial statements.

Consolidated cash flow statement for the year ended 31 January 2013

	Notes	**2013 £m**	2012 £m
Net cash inflow from operating activities	23	**353.9**	331.3
Returns on investment and servicing of finance	24	**(3.8)**	(3.1)
Taxation	24	**(56.1)**	(60.8)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(21.9)**	(26.6)
Acquisitions and disposals	24	**(6.2)**	(3.0)
Net cash inflow before financing		**265.9**	237.8
Financing			
Repayment of capital element of finance leases		**(12.0)**	(18.2)
Payments to group treasury	14	**(270.9)**	(248.9)
		(282.9)	(267.1)
Overall decrease in cash	25	**(17.0)**	(29.3)

The notes on pages 15 to 43 form an integral part of these financial statements.

Company balance sheet as at 31 January 2013

	Notes	2013 £m	2012 £m
Fixed assets			
Investment in subsidiaries	12	**1,661.1**	1,661.1
Current assets			
Debtors	14	**128.6**	128.6
Creditors falling due within one year	16	**(1,771.3)**	(1,771.3)
Net current liabilities		**(1,642.7)**	(1,642.7)
Net assets		**18.4**	18.4
Capital and reserves			
Called up share capital	21	**20.0**	20.0
Profit and loss account		**(1.6)**	(1.6)
Total capital employed		**18.4**	18.4

The Company did not have any transactions or other recognised gains or losses for the year to 31 January 2013 (2012: £nil) and therefore has not shown a profit and loss account or statement of total recognised gains and losses.

Signed for an on behalf of the Board by

A K Boland

Director

5 September 2013

The notes on pages 15 to 43 form an integral part of these financial statements.

Notes to the financial statements

1 Accounting policies

a Accounting convention

The financial statements are prepared under the historical cost convention and in accordance with applicable UK generally accepted accounting standards as defined in the Companies Act 2006 s.464 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 the impact of the refinancing described in note 31 to the financial statements, reviewing cash flow projections and financial covenant forecasts. The Directors have concluded that the Group has sufficient funds to continue trading for the foreseeable future, being at least one year from the date of signing of these financial statements. Therefore, the 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 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 or relate to an element of management charges from the Acromas Holdings Limited group for accessing group services. Trading EBITDA is further analysed as part of the segmental analysis in note 2.

b Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and each of its subsidiaries. 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.

In the parent company financial statements investments in subsidiaries are accounted for at the lower of cost and net realisable value.

c Use of estimates

All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions. Actual results may differ from those estimates.

The list below sets out those items management considers particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy.

- Deferred tax (note 1h)
- Pension benefits (note 1j)
- Goodwill (note 1k)
- Provisions for liabilities (note 1m)

Notes to the financial statements *(continued)*

1 Accounting policies (continued)

d Revenue recognition

Turnover represents amounts receivable for goods and services provided, excluding value added tax, insurance premium tax, trade discounts and transactions between companies within the Group.

Roadside membership subscriptions and premiums receivable on underwritten insurance products are apportioned on a time basis over the period where the Group is liable for risk cover. The unrecognised element of subscriptions and premiums receivable, relating to future periods, is held within creditors as deferred income.

Commission income from insurers external to the Group, either third party insurers or insurers that are also part of the Acromas Holdings Limited group, is recognised at the commencement of the period of risk.

Income from credit products is recognised over the period of the loan in proportion to the outstanding loan balance.

Interest income is recognised as interest accrues.

For all other revenue, income is recognised at point of delivery of goods or on provision of service. This includes work which has not yet been fully invoiced, provided that it is considered to be fully recoverable.

e Tangible fixed assets

Tangible fixed assets are 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. The cost of fixed assets less their expected residual value is depreciated by equal instalments over their useful economic lives. These lives are as follows:

Buildings, properties and related fixtures:	
Buildings	50 years
Related fittings	3 – 20 years
Leasehold properties	over the period of the lease
IT Systems	3 - 5 years
Plant, vehicles and other equipment	3 - 10 years

The carrying value of tangible fixed assets is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Notes to the financial statements *(continued)*

1 Accounting policies (continued)

f Leased assets 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 Group, and hire purchase contracts are capitalised in the balance sheet and are depreciated over the shorter of the lease term and the asset's useful life. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable and receivable under operating leases are charged, or credited, to the profit and loss account on a straight line basis over the lease term.

Incentives received in connection with entering into operating leases are recognised on a straight line basis over the period of the lease.

g Stocks

Stocks are stated at the lower of cost and net realisable value. Costs include all costs incurred in bringing each product to its present location and condition. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

h Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the years in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that the Directors consider it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

i Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the profit and loss account.

The financial statements of overseas subsidiaries have been translated using the net investment method. Under the net investment method the balance sheets have been translated at year end rates and the profit and loss accounts at weighted average rates for the year. Resultant translation differences are taken to reserves.

Notes to the financial statements *(continued)*

1 Accounting policies (continued)

j Pension benefits

For defined benefit schemes, the amounts charged to operating profit are the current costs and gains and losses on settlements and curtailments. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised on a straight line basis over the period until vesting occurs. The expected return on the scheme's assets and the increase during the period in the present value of the scheme's liabilities arising from the passage of time are included in interest payable. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Defined benefit schemes (with the exception of the AAPMP scheme) are funded, with assets of the schemes held separately from those of the Group, in separate trustee administered funds. Defined benefit pension scheme assets are measured using market values. Defined benefit pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Full actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of related deferred tax, is presented separately after other net assets and liabilities on the face of the balance sheet. The value of a net pension benefit asset is restricted to the amount that may be recovered either through reduced contributions or agreed refunds from the scheme.

For defined contribution schemes, the amounts charged to the profit and loss account are the contributions payable in the year.

k 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.

As this is the Company's first set of consolidated accounts, 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.

The useful economic life of goodwill has been estimated to be 20 years. The directors review the appropriateness of this useful life at the end of each year and revise it if necessary. Additionally, the directors review goodwill for impairment at the end of the first full financial year following the acquisition and at other times should events indicate that the carrying values may not be recoverable.

Notes to the financial statements *(continued)*

1 Accounting policies (continued)

l Insurance technical provisions

The provision for outstanding claims is set on an individual claim basis and is based on the ultimate cost of all claims notified but not settled less amounts already paid by the balance sheet date, together with a provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported at the balance sheet date. Claims estimates represent a point within a range of possible outcomes.

Differences between the provisions at the balance sheet date and settlements and provisions in the following year (known as ‘run off deviations’) are recognised in the profit and loss account for that year.

m Provisions for liabilities

A provision is recognised when the Group 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.

n Investments

Other fixed asset investments are included in the balance sheet at cost, less any provisions for permanent impairment.

In the Company balance sheet, investments in Group undertakings are stated at the lower of cost and net realisable value.

Notes to the financial statements *(continued)*

2 Segmental analysis

	2013 £m	2012 £m
Turnover		
Roadside Assistance	**674.1**	645.3
Insurance Services	**162.1**	168.4
Driving Services	**96.5**	96.9
AA Ireland	**38.3**	42.3
Insurance Underwriting	**-**	25.8
Trading turnover	**971.0**	978.7
Turnover not allocated to a segment	**(3.0)**	(4.8)
Turnover	**968.0**	973.9

	2013 £m	2012 £m
Operating profit		
Roadside Assistance	**295.5**	275.5
Insurance Services	**89.2**	84.6
Driving Services	**15.4**	11.6
AA Ireland	**9.9**	11.2
Insurance Underwriting	**0.6**	2.0
Head office costs	**(56.9)**	(56.4)
Trading operating profit	**353.7**	328.5
Amortisation not allocated to a segment	**(165.5)**	(165.5)
Items not allocated to a segment	**(4.3)**	(5.0)
Exceptional items	**(30.0)**	(16.7)
Operating profit	**153.9**	141.3

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 or relate to an element of management charges from Acromas group for accessing group services.

Reconciliation of trading operating profit to trading EBITDA	**2013 £m**	2012 £m
Trading operating profit	**353.7**	328.5
Depreciation	**37.9**	36.7
Amortisation included in the segments	**3.0**	2.9
Trading EBITDA	**394.6**	368.1

Notes to the financial statements *(continued)*

2 Segmental analysis (continued)

Trading EBITDA	**2013 £m**	2012 £m
Roadside Assistance	**317.6**	298.9
Insurance Services	**93.1**	87.3
Driving Services	**19.6**	15.1
AA Ireland	**13.0**	14.2
Insurance Underwriting	**0.6**	2.0
Head office costs	**(49.3)**	(49.4)
Trading EBITDA	**394.6**	368.1

Net assets/(liabilities)	**2013 £m**	2012 £m
Roadside Assistance	**(170.1)**	(181.7)
Insurance Services	**14.4**	20.0
Driving Services	**29.2**	33.8
AA Ireland	**2.3**	(4.5)
Insurance Underwriting	**(1.8)**	(38.6)
Head office costs	**(28.6)**	(24.7)
Net trading liabilities	**(154.6)**	(195.7)
Unallocated assets/(liabilities)		
Goodwill not allocated to a segment	**2,424.7**	2,590.2
Net intercompany balances	**(646.6)**	(846.2)
Defined benefit pension liabilities	**(135.9)**	(112.6)
Other unallocated assets	**72.1**	72.7
	1,714.3	1,704.1
Total net assets	**1,559.7**	1,508.4

Unallocated assets included investments, deferred tax asset, cash and tax creditors.

Turnover by destination is not materially different from turnover by origin.

With the exception of Ireland, all other segments operate wholly in the UK.

Notes to the financial statements *(continued)*

3 Other operating income

	2013	2012
	£m	£m
Interest on restricted cash	**0.7**	1.2
Interest on intercompany balances relating to insurance underwriting	**0.7**	1.2
	1.4	2.4

See note 15 for further information on restricted cash balances.

4 Operating profit

Operating profit is stated after charging:	**2013**	2012
	£m	£m
Amortisation of goodwill	**168.5**	168.4
Depreciation of owned tangible fixed assets	**22.5**	19.0
Depreciation of leased tangible fixed assets	**15.4**	17.7
Operating lease rentals payable – land and buildings	**4.8**	4.8
Operating lease rentals payable – plant and machinery	**10.7**	11.6
Exceptional item – cost of sales	**-**	7.4
Exceptional item – administrative and marketing expenses	**30.0**	9.3
	30.0	16.7

The cost of sales exceptional items relate to onerous lease contract costs within the Group's Driving Services operations.

The overhead exceptional items relate mainly to restructuring expenditure costs in respect of redundancy payments and onerous property lease costs from the re-organising of Group operations.

5 Auditor's remuneration

	2013	2012
	£m	£m
Audit of the financial statements	**0.6**	0.6
Total auditors' remuneration	**0.6**	0.6

£13,000 (2012: £13,000) of the audit of the financial statements relates to the Company.

Other fees payable to the auditors of the Group are disclosed in the accounts of Acromas Holdings Limited.

Notes to the financial statements *(continued)*

6 Net interest payable and similar charges

	2013 £m	2012 £m
Cash interest		
Interest receivable and similar income	**-**	0.1
Bank loans and overdrafts – cash interest	**(0.1)**	(0.1)
Finance charges payable under finance lease agreements	**(4.6)**	(4.4)
	(4.7)	(4.4)
Non cash interest		
Unwinding of discount rate on provisions (note 20)	**(0.3)**	(0.8)
Other finance costs in respect of pensions (note 26)	**(0.6)**	2.1
Other finance charges	**0.3**	0.2
	(0.6)	1.5
Total net interest payable and similar charges	**(5.3)**	(2.9)

7 Staff costs

	2013 £m	2012 £m
Wages and salaries	**248.6**	250.9
Social security costs	**23.1**	23.3
Other pension costs	**24.8**	18.9
	296.5	293.1

The average monthly number of persons employed under contracts of service during the year was:

	2013	2012
Operational	**7,154**	7,156
Management and administration	**1,548**	1,422
	8,702	8,578

8 Directors' remuneration

	2013 £m	2012 £m
Aggregate remuneration in respect of qualifying services	**1.2**	0.9

	2013	2012
Members of defined pension schemes	**2**	2

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

	2013 £000	2012 £000
Remuneration	**645**	501

The accrued pension at 31 January 2013 of the highest paid director was £28,000 (2012: £25,000).

A K Boland served as a de facto director of the Company until the date of his formal appointment on 1 April 2013

Notes to the financial statements *(continued)*

8 Directors' remuneration (continued)

J A Goodsell and S M Howard are also directors of the ultimate holding company and fellow subsidiaries and received total remuneration for the year of £2.4m (2012: £2.4m) all of which was paid by Saga Group Limited. Neither of these directors received any remuneration during the current or comparative years in respect of their services as directors of AA Intermediate Co Limited or its subsidiaries and it would not be practicable to apportion their remuneration between their services as directors of the Acromas group and their services as directors of AA Intermediate Co Limited and its subsidiaries.

9 Taxation

The group tax charge is made up as follows:

	2013	2012
	£m	£m
Current tax:		
UK corporation tax at 24.33% (2012: 26.32%)	**0.1**	18.6
Group relief payable	**71.0**	48.5
Adjustments relating to prior years	**1.0**	1.2
Foreign tax	**1.0**	1.3
Share of associate current tax	**0.2**	0.1
Group current tax	**73.3**	69.7
Deferred tax:		
Effect of tax rate change on opening balance	**4.0**	3.8
Origination and reversal of timing differences – current year	**1.5**	3.7
Origination and reversal of timing differences – prior years	**(0.6)**	0.4
Group deferred tax	**4.9**	7.9
Tax on profit on ordinary activities	**78.2**	77.6

Factors affecting the current tax charge

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the year of 24.33% (2012: 26.32%). The differences are reconciled below:

	2013	2012
	£m	£m
Profit on ordinary activities before taxation	**151.7**	139.0
UK corporation tax at standard rate on profit for the year	**36.9**	36.6
Non deductible amortisation of goodwill	**40.9**	44.1
Accelerated capital allowances	**(2.4)**	(4.9)
Permanent differences	**0.7**	(3.0)
Other timing differences	**0.2**	(3.2)
Lower rate of foreign tax	**(0.6)**	(1.1)
Utilisation of losses	**(3.4)**	-
Adjustments relating to prior years	**1.0**	1.2
	73.3	69.7

The tax credit relating to exceptional items amounts to £4.3m (2012: £4.8m).

The Group's foreign tax rates are lower than those in the UK primarily because profits earned in AA Ireland Limited are taxed at a rate of 12.5% (2012: 12.5%).

Notes to the financial statements *(continued)*

9 Taxation (continued)

Factors that may affect future tax charges

The Finance Act 2012 reduced the main rate of corporation tax from 26% to 24% with effect from 1 April 2012, and further reduced it from 24% to 23% with effect from 1 April 2013. As this reduction was substantively enacted on 3 July 2012, the deferred tax balance at 31 January 2013 has been stated at 23%.

Further reductions in the rate of UK Corporation tax to 21% from 1 April 2014 and 20% from 1 April 2015 were announced in December 2012 and March 2013. The Directors estimate that the effect of these proposed rate changes will reduce the Group's deferred tax asset by £4.3m.

Other than this, there are no circumstances foreseen that are expected to materially impact future tax charges.

Deferred tax

The deferred tax included in the consolidated balance sheet is as follows:

	2013 £m	2012 £m
Included in debtors (note 14)	**22.0**	25.5
Included in net defined benefit pension liability (note 26)	**29.8**	25.6
	51.8	51.1

	2013 £m	2012 £m
At 1 February	**51.1**	51.2
Deferred tax in the consolidated profit and loss account	**(4.9)**	(7.9)
Deferred tax credit in the consolidated statement of total recognised gains and losses	**5.6**	7.8
At 31 January	**51.8**	51.1

Deferred income tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable.

Deferred tax comprises an excess of depreciation over capital allowances of £14.0m (2012: £17.7m), short term differences of £4.8m (2012: £4.1m) and unused tax losses of £3.2m (2012: £3.7m).

The Group has an unrecognised deferred tax asset of £31.2m (2012: £37.4m) relating to unutilised tax losses. This asset will be recoverable in the event of suitable profits becoming available.

Notes to the financial statements *(continued)*

10 Intangible fixed assets

Goodwill	2013 £m	2012 £m
Cost		
At 1 February	**3,366.5**	3,363.0
Additions	**2.5**	3.5
At 31 January	**3,369.0**	3,366.5
Amortisation		
At 1 February	**729.4**	561.0
Charge for the year	**168.5**	168.4
At 31 January	**897.9**	729.4
Net book amount		
At 31 January	**2,471.1**	2,637.1

Acquisitions during the year

On 25 September 2012 the Group acquired the entire share capital of Peak Performance Management Limited, a provider of driving services. The consideration for the transaction (including costs) of £1.7m was settled in cash, with the exception of £0.4m deferred consideration which will be settled in the future. Goodwill arising on acquisition was £1.3m. The acquisition generated turnover of £0.2m in the four month period ended 31 January 2013.

Acquisitions in prior years

On 2 August 2011 the Group acquired the entire share capital of Intelligent Data Systems (UK) Limited, a provider of driving services. The consideration for the transaction (including costs) of £7.1m was settled in cash at the time, with the exception of £3.1m deferred consideration which was to be settled at a future date. Goodwill arising on acquisition was £6.0m. The acquisition generated turnover of £1.4m and created operating profits of £0.5m in the six month period ended 31 January 2012.

In addition to the above, sundry adjustments relating to acquisitions made in prior periods resulted in an increase to goodwill of £1.2m (2012: £1.5m reduction).

All of the acquisitions described above have been included in the Group balance sheet at their fair value at the date of acquisition. The fair values of all of the above acquisitions were not materially different to book value. The business combinations have all been accounted for using acquisition accounting. There were no recognised gains and losses in the post-acquisition period other than those described above.

Goodwill additions	2013 £m	2012 £m
Peak Performance Management Limited	**1.3**	-
Intelligent Data Systems (UK) Limited	**-**	5.0
Adjustments relating to previous acquisitions	**1.2**	(1.5)
	2.5	3.5

Notes to the financial statements *(continued)*

11 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	-	-	10.6	21.7	32.3
Disposals	-	-	(16.1)	(1.2)	(17.3)
Exchange adjustment	-	-	0.1	0.4	0.5
Reclassification adjustments	-	(0.1)	-	0.1	-
At 31 January 2013	28.3	8.0	69.4	177.4	283.1
Depreciation					
At 1 February 2012	4.3	2.4	37.9	86.7	131.3
Charge for the year	0.6	0.6	14.8	21.9	37.9
Disposals	-	-	(15.7)	(0.8)	(16.5)
Exchange adjustment	-	-	0.1	0.2	0.3
Reclassification adjustments	-	(0.1)	-	0.1	-
At 31 January 2013	4.9	2.9	37.1	108.1	153.0
Net book amount					
At 31 January 2013	**23.4**	**5.1**	**32.3**	**69.3**	**130.1**
At 31 January 2012	24.0	5.7	36.9	69.7	136.3

The net book amount of vehicles includes £30.0m (2012: £33.8m) held under finance lease agreements. The accumulated depreciation on these assets is £36.2m (2012: £36.0m).

The net book amount of other assets includes £3.3m (2012: £4.8m) in respect of plant & machinery held under finance lease agreements. The accumulated depreciation on these assets is £4.5m (2012: £2.9m).

Notes to the financial statements *(continued)*

12 Investments

	2013 **£m**	2012 £m
Group		
Associates	**3.4**	2.9
Other fixed asset investments	**1.0**	1.0
At 31 January	**4.4**	3.9
Company		
Investment in subsidiary undertaking at cost		
At 1 February and 31 January	**1,661.1**	1,661.1

The principal operating subsidiary undertakings of AA Intermediate Co Limited, all of which are wholly owned except where stated, are listed below. There is no difference between the percentage holding and percentage voting rights in ordinary shares. All of the principal subsidiary undertakings of AA Intermediate Co Limited are indirectly held by the Company, with the exception of AA Acquisition Co Limited which is directly held.

Company	**Country of registration**	**Nature of business**
Subsidiary undertakings		
The Automobile Association Limited	Jersey	Roadside services
Autowindshields (UK) Limited	England	Roadside services
Automobile Association Insurance Services Limited	England	Roadside & insurance broking
Drakefield Insurance Services Limited	England	Insurance broking
AA Financial Services Limited	England	Financial services
Automobile Association Developments Limited	England	Driving services
Drivetech (UK) Limited	England	Driving services
AA Media Limited	England	Driving services
AA Ireland Limited	Ireland	Roadside & insurance services
AA Corporation Limited	England	Head office functions
Automobile Association Underwriting Services Limited	England	Roadside & insurance services
Acromas Reinsurance Company Limited	Guernsey	Insurance underwriting
AA Acquisition Co Limited	England	Holding company
AA Senior Co Limited	England	Holding company
Associates (20% held) [a]		
ARC Europe S.A.	Belgium	Roadside services
Associates (22% interest held) [a]		
A.C.T.A. Assistance S.A.	France	Roadside services
A.C.T.A. Assurance S.A.	France	Roadside & insurance services
A.C.T.A. S.A.	France	Roadside services

(a) The Group holds these associate undertakings directly with the exception of A.C.T.A. S.A. and A.C.T.A. Assurance S.A., which are both subsidiaries of A.C.T.A. Assistance S.A. There is no difference between percentage holding and percentage voting rights in ordinary shares.

Notes to the financial statements *(continued)*

13 Stocks

	2013 £m	2012 £m
Work in progress	**0.1**	1.2
Finished goods	**5.2**	4.1
	5.3	5.3

14 Debtors

	2013 £m	2012 £m
Trade debtors	**147.9**	181.2
Amounts owed by group undertakings	**1,372.7**	1,070.2
Other debtors	**15.0**	9.1
Prepayments and accrued income	**28.0**	26.9
Deferred tax (note 9)	**22.0**	25.5
	1,585.6	1,312.9

Amounts owed by group undertakings mainly arises 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. These amounts represent cumulative cash earnings paid to a fellow Acromas group company resulting from trading throughout the year. As these amounts do 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.

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

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

Company	**2013 £m**	2012 £m
Amounts owed by group undertakings	**128.6**	128.6
	128.6	128.6

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

Notes to the financial statements *(continued)*

15 Cash at bank and in hand

	2013 £m	2012 £m
Cash at bank and in hand – available	**8.8**	7.5
Cash at bank and in hand – restricted	**34.8**	52.6
	43.6	60.1

Cash at bank and in hand includes £34.8m (2012: £52.6m) held by and on behalf of the Group's insurance businesses which are subject to contractual or regulatory restrictions. These amounts held are not readily available to be used for other purposes within the Group.

16 Creditors falling due within one year

	2013 £m	2012 £m
Group		
Obligations under finance lease agreements (note 18)	**17.8**	10.7
Trade creditors	**112.0**	152.0
Amounts owed to group undertakings	**2,019.3**	1,916.4
Corporation tax	**7.0**	20.9
Other taxes and social security costs	**21.6**	23.4
Other creditors	**28.4**	36.4
Accruals and deferred income	**270.5**	271.2
	2,476.6	2,431.0
Company		
Amounts owed to group undertakings	**1,771.3**	1,771.3

Upon the acquisition of the Group by the Acromas Holdings Limited group, Acromas Holdings Limited provided cash to the Group to pay off the external bank debt outstanding at the time of acquisition. This amount of £1,760.9m is held within amounts owed to group undertakings. The amounts owed to group undertakings are unsecured, have no repayment terms and bear no interest.

17 Creditors falling due after more than one year

	2013 £m	2012 £m
Group		
Obligations under finance lease agreements (note 18)	**13.6**	22.8
Other creditors	**1.3**	2.2
	14.9	25.0

Other creditors are all due within 5 years of the balance sheet date.

Notes to the financial statements *(continued)*

18 Obligations under finance leases

	2013 £m	2012 £m
Amounts payable under finance lease agreements:		
Within one year (note 16)	**17.8**	10.7
Within two to five years (note 17)	**13.6**	22.8
	31.4	33.5

19 Insurance technical provisions

	2013 £m	2012 £m
Outstanding claims provisions	**2.9**	19.8
Other technical provisions – provisions for incurred but not reported claims	**0.3**	20.0
	3.2	39.8

Provision is made for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported. The estimated cost of claims includes expenses to be incurred in settling claims. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provision, it is likely that the final outcome will prove to be different from the original liability established.

20 Provisions for liabilities

	Property leases £m	Restructuring £m	Other £m	Total £m
At 1 February 2012	34.3	2.6	1.9	38.8
Utilised during the year	(4.4)	(1.9)	(1.3)	(7.6)
Released unutilised during the year	(3.6)	(0.6)	(0.6)	(4.8)
Unwinding of discount rate (note 6)	0.3	-	-	0.3
Charge for the year	8.7	13.6	0.8	23.1
Balance at 31 January 2013	35.3	13.7	0.8	49.8

The property lease provision relates to future onerous lease costs of vacant properties for the remaining period of the lease, net of expected sub-letting income. A significant element of this provision relates to Service Centre sites not transferred to a third party. These sums are mainly expected to be paid out annually over the next 15 years however it will take 40 years to fully pay out all amounts provided for. The provision has been calculated on a pre-tax discounted basis.

The restructuring provision relates to redundancy and other related costs following the restructuring of operations in the current and prior periods. In the year ended 31 January 2013 this included the closure of two call centres.

Other provisions primarily comprise provision for rewards in our financial services division. These items are reviewed and updated annually.

Notes to the financial statements *(continued)*

21 Called up share capital

	2013	2012
	£m	£m
Group and Company		
Allotted, called up and fully paid		
20,000,002 ordinary shares of £1 each	**20.0**	20.0
	20.0	20.0

22 Reserves

	Currency translation reserve	Revaluation reserve	Profit and loss account	Total
	£m	£m	£m	£m
Group				
At 1 February 2011	0.4	1,255.7	197.0	1,453.1
Retained profit for the year	-	-	61.4	61.4
Transfer due to excess Amortisation		(75.5)	75.5	-
Exchange differences on retranslation of net assets of subsidiary undertakings	(0.1)	-	-	(0.1)
Actuarial losses recognised on defined benefit pension schemes (note 26)	-	-	(33.8)	(33.8)
Movement in deferred tax relating to defined benefit pension schemes (note 9)	-	-	7.8	7.8
At 31 January 2012	0.3	1,180.2	307.9	1,488.4
Retained profit for the year	-	-	73.5	73.5
Transfer due to excess Amortisation		(75.5)	75.5	-
Exchange differences on retranslation of net assets of subsidiary undertakings	(0.9)	-	-	(0.9)
Actuarial losses recognised on defined benefit pension schemes (note 26)	-	-	(26.9)	(26.9)
Movement in deferred tax relating to defined benefit pension schemes (note 9)	-	-	5.6	5.6
At 31 January 2013	(0.6)	1,104.7	435.6	1,539.7

The revaluation reserve arises on the revaluation of goodwill to the carrying values held by the Group's ultimate parent undertaking, Acromas Holdings Limited.

Company

There was no movement in reserves for the Company.

Notes to the financial statements *(continued)*

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

	2013 £m	2012 £m
Operating profit	**153.9**	141.3
Amortisation of goodwill	**168.5**	168.4
Depreciation of tangible fixed assets	**37.9**	36.7
Less other operating income	**(1.4)**	(2.4)
Less share of profits in associates	**(0.7)**	(0.4)
Decrease in stock	**-**	0.5
Decrease (increase) in debtors	**2.4**	(4.0)
Increase in creditors	**25.5**	17.3
Increase (decrease) in provisions	**11.0**	(3.8)
Decrease in underwriting technical insurance provisions	**(36.6)**	(9.8)
Difference between pension charge and cash contributions	**(6.6)**	(12.5)
Change in working capital	**(4.3)**	(12.3)
Net cash inflow from operating activities	**353.9**	331.3

The cash inflow from operating activities is stated net of cash outflows relating to exceptional items of £17.8m (2012: £19.1m). This relates to restructuring expenditure costs from the reorganising of Group operations of £13.4m (2012: £8.5m), onerous property provision future lease costs in respect of vacant properties of £4.4m (2012: £4.5m) and onerous lease contract costs of £nil (2012: £6.1m).

Analysis of movement in working capital split between available and restricted

	2013 £m	2012 £m
Change in working capital:		
Available	**(4.9)**	(10.1)
Restricted	**0.6**	(2.2)
Overall change in working capital	**(4.3)**	(12.3)

Analysis of cash flow from operating activities between operating and restricted

	2013 £m	2012 £m
Cash flows from operating activities:		
Available	**372.2**	348.9
Restricted	**(18.3)**	(17.6)
Net cash inflow from operating activities	**353.9**	331.3

Notes to the financial statements *(continued)*

24 Analysis of cash flows

	2013 £m	2012 £m
Returns on investment and servicing of finance		
Interest received	**0.9**	1.3
Interest paid	**(0.1)**	(0.1)
Interest element of finance lease agreements	**(4.6)**	(4.3)
	(3.8)	(3.1)
Taxation		
Corporation tax paid	**(2.8)**	0.4
Group relief paid to other entities in the Acromas group	**(52.3)**	(60.1)
Overseas tax paid	**(1.0)**	(1.1)
	(56.1)	(60.8)
Acquisitions and disposals		
Purchase of subsidiary undertakings	**(9.7)**	(4.2)
Purchase of interest in associate undertaking	**-**	(0.3)
Proceeds from disposal of joint venture	**3.1**	0.6
Net cash acquired with subsidiary undertakings	**0.4**	0.9
	(6.2)	(3.0)

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.

Notes to the financial statements *(continued)*

25 Analysis of net debt

	Available cash	Re-stricted cash	Cash at bank and in hand	Finance lease	Payments to group treasury	Other inter-company	Net debt
	£m	£m	£m	£m	£m	£m	£m
At 1 February 2011	20.3	69.5	89.8	(32.1)	731.0	(1,826.3)	(1,037.6)
Cash flows	(12.8)	(16.5)	(29.3)	18.2	248.9	-	237.8
Exchange differences	-	(0.4)	(0.4)	-	-	-	(0.4)
Other non cash movement	-	-	-	(19.6)	-	0.2	(19.4)
At 31 January 2012	7.5	52.6	60.1	(33.5)	979.9	(1,826.1)	(819.6)
Cash flows	1.2	(18.2)	(17.0)	12.0	270.9	-	265.9
Exchange differences	0.1	0.4	0.5	-	-	-	0.5
Other non cash movement	-	-	-	(9.9)	-	(71.3)	(81.2)
At 31 January 2013	8.8	34.8	43.6	(31.4)	1,250.8	(1,897.4)	(634.4)

Payments to Acromas group treasury – reconciliation to the balance sheet

	2013	2012
	£m	£m
Payments to Acromas group treasury (see analysis of net debt above)	**1,250.8**	979.9
Other amounts owed by group undertakings	**121.9**	90.3
Amounts owed by group undertakings (note 14)	**1,372.7**	1,070.2

Other intercompany – reconciliation to the balance sheet

	2013	2012
	£m	£m
Other intercompany (see analysis of net debt above)	**(1,897.4)**	(1,826.1)
Other amounts owed by group undertakings (see above)	**(121.9)**	(90.3)
Amounts owed to group undertakings (note 16)	**(2,019.3)**	(1,916.4)

Notes to the financial statements *(continued)*

26 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). The assets of the schemes are held separately from those of the Group in independently administered funds. New entrants to the AA schemes accrue benefits on a career average salary basis. The AA schemes have final salary sections that are closed to new entrants but open to future accrual for existing members.

Certain AA employees are also members of an unfunded post-retirement Private Medical Plan scheme (AAPMP), which is a defined benefit scheme. The scheme is not open to new entrants.

Regular employer contributions to the pension schemes in the year to 31 January 2014 are estimated to be £26.1m. Further additional employer contributions will be required if there are any redundancies or augmentations during the year.

The valuations used for FRS17 (Retirement benefits) disclosures have been based on a full assessment of the liabilities of the schemes. The present values of the defined benefit obligation, the related current service cost and any past service costs were measured using the projected unit credit method.

Actuarial gains and losses have been recognised in the year in which they occur through the Statement of Total Recognised Gains and Losses (STRGL).

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

	2013	2012
Real rate of increase in salaries	**0.0%**	0.0%
Real rate of increase of pensions in payment	**0.0%**	0.0%
Real rate of increase of pensions in deferment	**0.0%**	0.0%
Discount rate	**4.7%**	4.6%
Inflation assumption	**3.4%**	3.0%
Medical premium inflation	**7.4%**	7.0%

Mortality assumptions are set using standard tables based on scheme specific experience where available. Each scheme’s mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The AA schemes’ assumptions are that an active male retiring in normal health currently aged 60 will live on average for a further 27 years and an active female retiring in normal health currently aged 60 will live on average for a further 30 years.

Notes to the financial statements *(continued)*

26 Pension costs and other post retirement benefits (continued)

The amounts recognised in the balance sheet are as follows:

As at 31 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)

As at 31 January 2012	AAUK £m	AAROI £m	AAPMP £m	Total £m
Fair value of scheme assets	1,393.1	30.3	-	1,423.4
Present value of defined benefit obligation	(1,473.3)	(43.5)	(44.8)	(1,561.6)
Defined benefit scheme liability	(80.2)	(13.2)	(44.8)	(138.2)
Related deferred tax asset	20.1	1.6	3.9	25.6
Liability recognised in the balance sheet	(60.1)	(11.6)	(40.9)	(112.6)

The amounts recognised in the balance sheet are reconciled as follows:

	AAUK £m	AAROI £m	AAPMP £m	Total £m
Defined benefit liability at 1 February 2011	(64.3)	(9.2)	(41.1)	(114.6)
Profit and loss expense	(13.2)	(1.1)	(2.5)	(16.8)
Contributions by employer	23.7	1.5	1.2	26.4
Loss recognised in the STRGL	(26.4)	(4.4)	(2.4)	(33.2)
Defined benefit liability at 31 January 2012	(80.2)	(13.2)	(44.8)	(138.2)
Profit and loss expense	(22.1)	(1.0)	(2.3)	(25.4)
Contributions by employer	23.6	1.4	1.0	26.0
Loss recognised in the STRGL	(18.1)	(8.6)	(1.4)	(28.1)
Defined benefit liability at 31 January 2013	(96.8)	(21.4)	(47.5)	(165.7)

Included within debtors, there is a pension escrow account of £10.0m (2012: £5.0m). This relates to payments that have been made to an escrow account in relation to the pension scheme.

Notes to the financial statements *(continued)*

26 Pension costs and other post retirement benefits (continued)

The changes in the present value of the defined benefit obligation are as follows:

	AAUK £m	AAROI £m	AAPMP £m	Total £m
Defined benefit obligation at 1 February 2011	1,301.0	41.5	41.1	1,383.6
Current service cost	18.0	0.7	0.2	18.9
Interest cost	73.8	2.0	2.3	78.1
Contributions by scheme participants	1.3	0.3	-	1.6
Changes in assumptions underlying the present value of scheme liabilities	115.3	1.9	2.4	119.6
Net benefits paid out	(36.1)	(1.4)	(1.2)	(38.7)
Currency loss	-	(1.5)	-	(1.5)
Defined benefit obligation at 31 January 2012	1,473.3	43.5	44.8	1,561.6
Current service cost	23.9	0.7	0.2	24.8
Interest cost	67.5	1.8	2.1	71.4
Contributions by scheme participants	1.2	0.3	-	1.5
Changes in assumptions underlying the present value of scheme liabilities	70.5	7.8	1.4	79.7
Net benefits paid out	(37.9)	(1.3)	(1.0)	(40.2)
Currency gain	-	2.3	-	2.3
Defined benefit obligation at 31 January 2013	**1,598.5**	**55.1**	**47.5**	**1,701.1**

The changes in the fair value of scheme assets during the year are as follows:

	AAUK £m	AAROI £m	AAPMP £m	Total £m
Fair value of scheme assets at 1 February 2011	1,236.7	32.3	-	1,269.0
Expected return on scheme assets	78.6	1.6	-	80.2
Actuarial gains on scheme assets	88.9	(3.1)	-	85.8
Contributions by employer	23.7	1.5	1.2	26.4
Contributions by scheme participants	1.3	0.3	-	1.6
Net benefits paid out	(36.1)	(1.4)	(1.2)	(38.7)
Currency loss	-	(0.9)	-	(0.9)
Fair value of scheme assets at 31 January 2012	1,393.1	30.3	-	1,423.4
Expected return on scheme assets	69.3	1.5	-	70.8
Actuarial gains on scheme assets	52.4	0.4	-	52.8
Contributions by employer	23.6	1.4	1.0	26.0
Contributions by scheme participants	1.2	0.3	-	1.5
Net benefits paid out	(37.9)	(1.3)	(1.0)	(40.2)
Currency gain	-	1.1	-	1.1
Fair value of scheme assets at 31 January 2013	**1,501.7**	**33.7**	**-**	**1,535.4**

Notes to the financial statements *(continued)*

26 Pension costs and other post retirement benefits (continued)

The fair value of scheme assets by percentage is as follows:

	AAUK		AAROI	
	2013	2012	**2013**	2012
Equities	**29%**	33%	**57%**	55%
Bonds	**43%**	41%	**40%**	39%
Property	**7%**	8%	**3%**	6%
Hedge funds	**20%**	15%	**-**	-
Other	**1%**	3%	**-**	-
Total	**100%**	100%	**100%**	100%

The analysis of amounts recognised in the profit and loss account is as follows:

Year to 31 January 2013	AAUK £m	AAROI £m	AAPMP £m	Total £m
Current service cost	23.9	0.7	0.2	24.8
Interest cost	67.5	1.8	2.1	71.4
Expected return on scheme assets	(69.3)	(1.5)	-	(70.8)
Net finance (return) cost recognised	(1.8)	0.3	2.1	0.6
Expense taken in the profit and loss account	22.1	1.0	2.3	25.4

Year to 31 January 2012	AAUK £m	AAROI £m	AAPMP £m	Total £m
Current service cost	18.0	0.7	0.2	18.9
Interest cost	73.8	2.0	2.3	78.1
Expected return on scheme assets	(78.6)	(1.6)	-	(80.2)
Net finance (return) cost recognised	(4.8)	0.4	2.3	(2.1)
Expense taken in the profit and loss account	13.2	1.1	2.5	16.8

Notes to the financial statements *(continued)*

26 Pension costs and other post retirement benefits (continued)

The analysis of amounts recognised in the STRGL is as follows:

	AAUK £m	AAROI £m	AAPMP £m	Total £m
Year to 31 January 2013				
Changes in assumptions underlying the present value of scheme liabilities	(70.5)	(7.8)	(1.4)	(79.7)
Actuarial gain on scheme assets	52.4	0.4	-	52.8
Actuarial losses recognised	(18.1)	(7.4)	(1.4)	(26.9)
Exchange loss	-	(1.2)	-	(1.2)
Total loss in STRGL	(18.1)	(8.6)	(1.4)	(28.1)

	AAUK £m	AAROI £m	AAPMP £m	Total £m
Year to 31 January 2012				
Changes in assumptions underlying the present value of scheme liabilities	(115.3)	(1.9)	(2.4)	(119.6)
Actuarial gain on scheme assets	88.9	(3.1)	-	85.8
Actuarial losses recognised	(26.4)	(5.0)	(2.4)	(33.8)
Exchange loss	-	0.6	-	0.6
Total loss in STRGL	(26.4)	(4.4)	(2.4)	(33.2)

Cumulative actuarial losses reported in the consolidated statement of total recognised gains and losses for accounting periods ending on or after 22 June 2002 are £486.2m (2012: £400.0m).

The analysis of actual return on scheme assets is as follows:

	AAUK £m	AAROI £m	AAPMP £m	Total £m
Year to 31 January 2013				
Expected return on scheme assets	69.3	1.5	-	70.8
Actuarial gains on scheme assets	52.4	0.4	-	52.8
Actual return on scheme assets	121.7	1.9	-	123.6

	AAUK £m	AAROI £m	AAPMP £m	Total £m
Year to 31 January 2012				
Expected return on scheme assets	78.6	1.6	-	80.2
Actuarial gains on scheme assets	88.9	(3.1)	-	85.8
Actual return on scheme assets	167.5	(1.5)	-	166.0

Notes to the financial statements *(continued)*

26 Pension costs and other post retirement benefits (continued)

Five year history experience gains and losses are as follows:

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Fair value of scheme assets	1,535.4	1,423.4	1,269.0	1,194.5	1,031.2
Present value of scheme liabilities	(1,701.1)	(1,561.6)	(1,383.6)	(1,440.1)	(1,059.1)
Defined benefit scheme liability	(165.7)	(138.2)	(114.6)	(245.6)	(27.9)

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Experience adjustments arising on plan liabilities	2.8	(2.9)	17.8	11.4	(0.9)
Experience adjustments arising on plan assets	52.8	85.8	12.2	106.9	(281.5)

There are no experience adjustments arising on the AAPMP scheme.

The effect of changes in the assumed medical cost trend is as follows:

	Medical cost trend rates adopted £m	Medical cost trend rates of 1% pa lower £m	Medical cost trend rates of 1% pa higher £m
Actuarial value of AAPMP liabilities at 31 January 2013	47.5	(5.8)	7.0
Total of interest cost and service cost for the year to 31 January 2013	2.3	(0.4)	0.4

27 Related party transactions

The Group has taken advantage of the exemption within FRS 8 (Related party disclosures) in not disclosing transactions with other entities in the Acromas group of companies.

Transactions with associates

		2013 £m	2012 £m
A.C.T.A. S.A.	Call handling fees paid	**1.9**	2.2
	Amounts payable at 31 January	**0.1**	-
A.R.C. Europe S.A.	Registration fees paid	**0.5**	0.5
	Amounts payable at 31 January	**0.2**	0.3

Notes to the financial statements *(continued)*

28 Lease commitments

The Group's annual commitment under non-cancellable operating leases is as follows:

	Land and Buildings		Plant and Machinery	
	2013	2012	**2013**	2012
	£m	£m	**£m**	£m
Leases expiring:				
Within one year	**0.4**	0.4	**3.3**	1.7
Between two and five years	**0.4**	1.4	**0.8**	0.5
After five years	**2.6**	2.7	**-**	-
	3.4	4.5	**4.1**	2.2

29 Contingent liabilities and cross company guarantees

The Company, along with certain of its key subsidiaries and other substantial companies across the Acromas Group, acted as Obligor on bank loans made to Acromas Mid Co Limited. At the balance sheet date, the principal, accrued interest, guarantees and other facilities outstanding on these bank loans was £5,132.1m (2012: £5,098.2m).

The Company has guaranteed the liabilities of its wholly-owned subsidiary undertakings AA Ireland Limited and Tourist Accommodation Services Limited in the Republic of Ireland for the financial year ended 31 January 2013.

30 Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £1.3m (2012: £2.9m).

31 Post balance sheet events

On 2 July 2013, the Group completed a debt refinancing of its business, raising £3.055 billion using a combination of £1.280 billion of publicly traded bonds and £1.775 billion of bank debt. The proceeds of the refinancing have been remitted to the Acromas group to partially repay Acromas Mid Co Limited's bank debt, in return for the release of the guarantees previously provided by the Group and the Company outlined in note 29. The Group no longer remits cash to Acromas group treasury and provides security to the new lenders via a combination of fixed and floating charges and the Company is now a Guarantor to the Group debt.

On 9 August 2013, the Group issued a further £350m of bonds under its existing bond issuance programme and used the proceeds to repay part of its bank debt.

32 Ultimate parent undertaking

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

The parent of the smallest group to consolidate these financial statements is AA 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 Acromas Holdings Limited whose registered office is at Enbrook Park, Folkestone, Kent, CT20 3SE.

Copies of the consolidated parent financial statements are available from the Company Secretary at the relevant registered office address.

Notes to the financial statements *(continued)*

33 Ultimate controlling party

The Directors consider the ultimate controlling party to be funds advised by Charterhouse Capital Partners, CVC Capital Partners and Permira Advisers acting in concert.