AA LIMITED

BUSINESS OVERVIEW AND RECENT DEVELOPMENTS REPORT

29 October 2013

TABLE OF CONTENTS

IMPORTANT INFORMATION

The terms "**we**," "**our**," "**us**," the "**Company**," the "**Automobile Association,**" the "**AA**" or the "**AA Group**" with respect to our historical results of operation, including business operations, refer to AA Limited and its subsidiaries as a whole or to any one or more of its subsidiaries.

FORWARD-LOOKING STATEMENTS

This Report 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 Report, including, without limitation, in the sections entitled "*Summary*," "*Risk Factors*," "*Management's Discussion and Analysis of Financial Condition and Results of Operations*," "*Industry*" and "*Business*" and include, among other things, statements relating to:

- our 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;
- our operational and financial targets;
- our results of operations, liquidity, capital resources and capital expenditure;
- our cost-saving programmes;
- our financing plans and requirements;
- the separation of our operations from the Acromas Group and the Saga Group;
- our planned investments;
- future growth in demand for our products and services;
- general economic trends and trends in the markets in which we operate;
- the impact of regulations and laws on us and our operations;
- our retention of personal members, B2B customers and B2B partners;
- the competitive environment in which we operate and pricing pressure we may face;
- our 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. We caution you that forward-looking statements are not guarantees of future performance and that our actual financial condition, results of operations and cash flows, and the development of the industry in which we operate, may differ materially from (and be more negative than) those made in, or suggested by, the forward-looking statements contained in this Report. In addition, even if our 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 Report, those results or developments may not be indicative of results or developments in subsequent periods. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we 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 our favourable brand recognition;
- the operational failure of our IT and communication systems or the failure to develop our IT and communication systems;

- the loss of key contractual relationships with certain B2B partners;
- increased competition within our business segments;
- existing competition within the insurance broking market;
- insufficient technical reserves to cover the cost of insurance claims in connection with our insurance underwriting products;
- changes in the competitive landscape within the insurance industry, and changes relating to our 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 our 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 our brand and other intellectual property rights from infringement;
- our ability to successfully manage risks and liabilities relating to acquisitions and integrate any future acquisitions or consummate disposals in the future;
- our ability to operate as a stand-alone business following the Separation and potential increased operating costs incurred as a stand-alone business;
- our 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 our business;
- risks relating to our pension schemes;
- factors affecting our leverage, our ability to service our debt and our structure;
- risks relating to security, enforcement and insolvency; and
- risks relating to taxation.

Additional factors that could cause our actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "*Risk Factors*." The factors described above and others described under the caption "*Risk Factors*" should not be construed as exhaustive. Due to such uncertainties and risks, you are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date of this Report.

These forward-looking statements speak only as of the date of this Report. 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. 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 and contained elsewhere in this Report, including those set forth under the caption "*Risk Factors*."

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial Information

Unless otherwise indicated, this Report presents the (i) audited consolidated financial information of the Company as of and for the years ended 31 January 2011, 2012 and 2013, which have been prepared in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) ("**UK GAAP**") and audited by the Company's independent auditors, Ernst & Young LLP and (ii) the unaudited interim consolidated financial information of the Company as of and for the six months ended 31 July 2012 and 2013, which have been prepared in accordance with UK GAAP. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Consolidated Results of Operations for the Six Months Ended 31 July 2012 and 2013*" for further information on our results of operations for the six months ended 31 July 2012 and 2013.

On 26 June 2013, we transferred the entire share capital of Acromas Reinsurance Company Limited ("**ARCL**") from The Automobile Association Limited ("**TAAL**") to the Company. In addition, on 24 October 2013, Acromas Bid Co Limited transferred all the share capital and assets of Automobile Association (Gibraltar) ("**AAG**"), formerly known as Automobile Association Insurance Company Limited, to the Company. Under the terms of our financing arrangements, we may prepare and present future consolidated financial statements for an AA Group entity other than the Company. As a result of the transfer described above, the results of operations of ARCL will not be reflected in any of the Company's subsidiaries' results of operations or reported on going forward. Furthermore, AAG has not historically been, and will not in the future, be reflected in any of the Company's subsidiaries' results of operations. Historically, ARCL made up the entirety of our insurance underwriting segment in our results of operations. AAG may conduct underwriting activities on behalf of the Company in the future. We have also historically made payments to the group treasury function within the Acromas Group to cover various costs and expenses, including Acromas' obligations under the Existing Senior Facility Agreement and the Former Mezzanine Facility Agreement. Following the Separation, which took place on 2 July 2013, we no longer remit cash to the Acromas Group treasury and we retain this cash within the Topco Restricted Group, which is comprised of Topco and all of its subsidiaries and excludes the Company (the "**Topco Restricted Group**"). In addition, we may incur increased costs from operating as a stand-alone business and other one-off and exceptional costs in connection with the Separation. As a result of the foregoing, our future consolidated financial statements and the future consolidated financial statements of our subsidiaries will not be directly comparable to our consolidated financial statements for any prior periods. See "*Summary—Recent Developments—The Separation*."

Non-UK GAAP Financial Measures

We present in this Report various financial measures that are not measures of financial performance or liquidity under UK GAAP, including the following:

- Trading turnover, which we define as turnover from our roadside assistance, insurance services, driving services, AA Ireland and insurance underwriting segments and excluding turnover not allocated to a segment.

- Trading EBITDA, which we define as profit before (i) taxation, (ii) net interest payable and similar charges, (iii) goodwill amortisation, (iv) exceptional items, (v) pension curtailment gain, (vi) items not allocated to a segment and (vii) depreciation. Items not allocated to a segment relate to transactions that do not form part of the ongoing segment performance (including head office costs) and include transactions which are one-off in nature or relate to management charges from the Acromas Group for accessing shared services used by each of the AA Group, Saga Group and Acromas Group. We present Trading EBITDA on both a segmental and a consolidated basis. However, the presentation of segmental Trading EBITDA as a percentage of total Trading EBITDA excludes head office costs to accurately reflect the proportion of our trading activities from each segment. See "*Note 1—Accounting Policies*" and "*Note 2—Segmental Analysis*" to our audited consolidated financial statements as of and for the years ended 31 January 2011, 2012 and 2013 and to our unaudited interim consolidated financial statements as of and for the six months ended 31 July 2012 and 2013, included on our website.

- Trading EBITDA margin, which we define as Trading EBITDA as a percentage of Trading turnover. See "*Summary Consolidated Financial, Operating and Other Data*."

- Capital expenditure, which we define as the total amount of tangible fixed assets acquired, including assets acquired under finance lease arrangements. See "*Summary Consolidated Financial, Operating and Other Data*."

In addition, we present certain financial measures for AA Ireland on a "constant currency" basis to eliminate foreign currency exchange rate fluctuations, and such presentation of financial measures on a constant currency basis is not in accordance with UK GAAP.

The non-UK GAAP financial measures presented herein are not recognised measures of financial performance under UK GAAP, but measures used by management to monitor the underlying performance of our business and operations.

In particular, the non-UK GAAP financial measures should not be viewed as substitutes for net profit/(loss) for the period, profit/(loss) before taxation, operating income, cash and cash equivalents at period end or other income statement or cash flow items computed in accordance with UK GAAP. The non-UK GAAP financial measures do not necessarily indicate whether cash flow will be sufficient or available to meet our cash requirements and may not be indicative of our historical operating results, nor are such measures meant to be predictive of our future results.

We have presented these non-UK GAAP measures in this Report because we consider them to be important supplemental measures of our performance and believe that they are used by investors comparing performance between companies. Since not all companies compute these or other non-UK GAAP financial measures in the same way, the manner in which our management has chosen to compute the non-UK GAAP financial measures presented herein may not be comparable with similarly defined terms used by other companies. The non-UK GAAP financial measures have certain limitations as analytical tools, and you should not consider these measures in isolation from the other financial information presented herein. Some of these limitations are:

- they do not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- they do not reflect changes in, or cash requirements for, our working capital needs;
- they do not reflect the significant interest expense, or the cash requirements necessary, to service interest or principal payments on our debts;
- although depreciation and amortisation are non-cash charges, the assets being depreciated and amortised will often need to be replaced in the future and operating free cash flow does not reflect any cash requirements that would be required for such replacements; and
- the fact that other companies in our industry may calculate the non-UK GAAP measures differently from the way we do may limit their usefulness as a comparative measure.

Differences between UK GAAP, IFRS and US GAAP

The financial information presented in this Report has not been prepared or audited in accordance with accounting principles generally accepted in the United States (“**US GAAP**”) or International Financial Reporting Standards as adopted by the European Union (“**IFRS**”). No opinion or any other assurance with regard to any financial information has been expressed under US GAAP or IFRS.

We prepare our consolidated financial statements in accordance with UK GAAP, which differs in certain significant respects from IFRS and US GAAP. We have not prepared consolidated financial statements in accordance with, nor have we reconciled our consolidated financial statements to, IFRS or US GAAP. We cannot offer any assurance that we will continue to prepare our consolidated financial statements in accordance with UK GAAP. We cannot offer any assurance that the differences described below would, in fact, be the accounting principles creating the greatest differences between our financial statements in the event we were to present our financial statements in accordance with IFRS. Therefore, we are unable to identify or quantify all the differences that may impact our reported profits, financial position or cash flows in the event they were to be reported under IFRS, and the effects of such differences may be material. We have not included in this Report any explanation of the differences between UK GAAP and US GAAP, which also may be material.

We summarise below some of the key differences that may arise in the event we were to present our financial statements in accordance with IFRS. This list is not comprehensive and, except as stated, takes no account of current or future changes to IFRS.

- We would be required to present an analysis of our operating segments under IFRS 8 *Operating Segments*. Such presentation may differ from the presentation of our segmental information in accordance with SSAP 25, *Segmental Reporting* under UK GAAP.
- We would be required to adopt a different presentation, including the format of our primary statements and incorporate additional disclosures, in areas such as employee benefits and leases, into our financial statements under IFRS as compared with UK GAAP.
- We would not amortise our goodwill under IFRS. Instead, goodwill would be stated at cost less impairment and reviewed annually for impairment. Under UK GAAP, our goodwill is being amortised over 20 years.
- We would be required to account for taxation on a temporary difference basis. Under UK GAAP, taxation is accounted for on timing differences. More deferred taxation is likely to be recognised under IFRS.
- We would measure all derivatives at fair value through profit and loss under IFRS. Under UK GAAP, we account for interest rate swaps by accruing the net interest payable.

- There are some differences between defined benefit accounting under IFRS and UK GAAP which affect the defined benefit cost recognised in profit and loss and may affect the (net of taxation) value of the defined pension liability recognised in the balance sheet. Under IFRS, the defined benefit obligation would be shown in the balance sheet gross of deferred taxation. Under UK GAAP, the defined benefit obligation is shown net of deferred taxation. IFRS requires that the defined benefit pension asset/liability is recognised in either the individual financial statements of the sponsoring employer or allocated across all participating subsidiaries depending on whether there is a contractual agreement or stated policy for charging to individual group entities the net defined benefit cost for the plan as a whole. Under UK GAAP, the defined benefit pension asset/liability does not need to be charged to any individual group company if they cannot identify their share of the underlying assets and liabilities.

The differences between UK GAAP and IFRS described above are not necessarily differences that have existed throughout the periods covered by the consolidated financial information presented herein. The above discussion is not intended to provide a comprehensive list of all such differences specifically related to us or the industries in which we operate. IFRS is generally more restrictive and comprehensive than UK GAAP regarding recognition and measurement of transactions, account classification and disclosure requirements. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions and events are presented in our consolidated financial statements or the notes thereto.

The International Accounting Standards Board (the "**IASB**") is working on various projects, including projects to revise accounting for financial instruments, insurance contracts, revenue recognition and leases. The outcome of these projects may affect the measurement, recognition, disclosure and presentation of balances and transactions in the consolidated financial statements or the notes thereto. Until a final IFRS is issued, the impact of such changes resulting from these projects on the consolidated financial statements, if any, cannot be reliably assessed.

In November 2012 and March 2013 the UK Financial Reporting Council (FRC) issued new accounting standards which will replace extant UK GAAP for accounting periods beginning on or after 1 January 2015. Financial Reporting Standard 101 (FRS 101) allows "qualifying entities" (including most subsidiaries) to present individual financial statements in accordance with IFRS but with reduced disclosures. Financial Reporting Standard 102 (FRS 102) is the "new" UK GAAP which can be applied in both consolidated and individual financial statements. For accounting periods beginning on or after 1 January 2015, entities currently preparing financial statements under UK GAAP must change to either FRS 102, FRS 101 or EU-adopted IFRS. FRS 102 has the following key differences compared to extant UK GAAP:

- Goodwill must have a finite useful life and is amortised over that life. If the useful life of goodwill cannot be reliably estimated, the life cannot exceed five years.

- Taxation is recognised on a timing differences plus approach which is similar, but not identical, to the temporary differences approach under IFRS.

- Derivatives must be measured at fair value through profit and loss.

- Accounting for defined benefit pension schemes is similar to IFRS. The defined benefit asset/liability must be presented gross of deferred taxation and, in individual financial statements, the defined benefit pension asset/liability is recognised in either the financial statements of the sponsoring employer or allocated across all participating subsidiaries depending on whether there is a contractual agreement or stated policy for charging to individual group entities the net defined benefit cost for the plan as a whole.

The differences between extant UK GAAP and FRS 102 described above are not intended to be a comprehensive list of all such differences specifically related to us or the industries in which we operate.

Adjustments

Certain numerical information and other amounts and percentages presented in this Report may not sum due to rounding. Accordingly, certain figures in this Report have been rounded to the nearest whole number.

INDUSTRY AND MARKET DATA

In this Report, we rely on and refer to information regarding our business and the markets in which we operate and compete. Certain economic and industry data, market data and market forecasts set forth in this Report were extracted from market research, governmental and other publicly available information, independent industry publications and reports prepared by international consulting firms. These external sources include the Association of British Insurers ("**ABI**"), Business Monitor International ("**BMI**"), the UK Department for Transport ("**DfT**"), Datamonitor, the Office for National Statistics ("**ONS**"), the Society of Motor Manufacturers and Traders ("**SMMT**") and industry data provided by third parties, some of which was commissioned on our behalf.

While we have accurately reproduced such third-party information, neither we nor the Initial Purchasers have verified the accuracy of such information, market data or other information on which third parties have based their studies. As far as we are aware and are able to ascertain from information published by these third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. Market studies are frequently based on information and assumptions that may not be exact or appropriate, and their methodology is by nature forward-looking and speculative.

This Report also contains estimates of market data and information derived therefrom that cannot be gathered from publications by market research institutions or any other independent sources. Such information is prepared by us based on third-party sources and our own internal estimates, including studies of the market that we have commissioned. In many cases, there is no publicly available information on such market data, for example, from industry associations, public authorities or other organisations and institutions. We believe that our estimates of market data and information derived therefrom are helpful to give investors a better understanding of the industry in which we operate as well as our position within the industry. Although we believe that our internal market observations are reliable, our own estimates are not reviewed or verified by any external sources. While we are not aware of any misstatements regarding the industry or similar data presented herein, such data involves risks and uncertainties and is subject to change based on various factors, including those discussed under the heading "*Risk Factors*."

SUMMARY

Overview

We are the largest roadside assistance provider in the United Kingdom, representing over 40% of the market and responding to an average of approximately 10,000 breakdowns every day. With over 100 years of operating history, we have established ourselves as one of the most widely recognised and trusted brands in the United Kingdom. We have successfully leveraged our brand and pursued an affinity-based expansion model into complementary products and services to also become a leading provider of insurance broking services, home emergency assistance services, financial services intermediation and driving services, each of which is offered under the AA brand. As of 31 January 2013, approximately 16 million customers, representing approximately 51% of UK households, subscribed to at least one AA product.

In the twelve months ended 31 July 2013, we generated Trading turnover of £975.2 million and Trading EBITDA (defined as profit before taxation, net interest payable and similar charges, goodwill amortisation, exceptional items, pension curtailment gain, items not allocated to a segment and depreciation) of £408.5 million. Between 31 January 2009 and 31 July 2013, our Trading turnover grew at a CAGR of 2.0%. Our business generates attractive margins, with a Trading EBITDA margin of 41.9% for the twelve months ended 31 July 2013. We have high cash conversion ratios (defined as available cash inflow from operating activities divided by Trading EBITDA) of 94.3% and 101.7% in the year ended 31 January 2013 and the twelve months ended 31 July 2013, respectively, as we have favourable working capital dynamics due to the fact that the majority of our personal members pay for services in advance and the majority of our suppliers are paid after the provision of goods and services. In addition, we estimate that approximately 84% of our turnover and approximately 92% of our profit contribution (turnover less marketing and service and delivery costs) for the year ended 31 January 2013 was derived from repeat business (defined as income from renewing personal members and insurance customers, multi-year B2B roadside assistance and driving services contracts and driving school franchisees that contribute to turnover), which contributes to the relative predictability of our future Trading EBITDA and cash flow.

Our Products and Services

Our business consists of four core segments: roadside assistance, insurance services, driving services and AA Ireland. Revenue for our roadside assistance, insurance services and AA Ireland segments are primarily derived from business-to-customer ("**B2C**") and business-to-business ("**B2B**") relationships. The business-to-customer market is composed of individuals that directly subscribe for or purchase the relevant products and services (the "**B2C market**"), while the business-to-business market is composed of third-party companies and other organisations ("**B2B partners**") that offer the relevant products and services as "add-on" or complementary products and services to their own customers (the "**B2B market**").

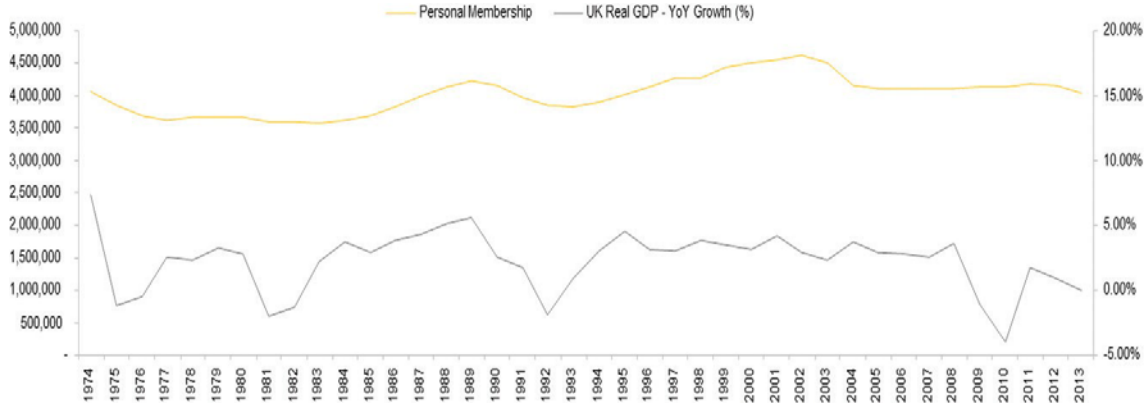
Roadside Assistance

We are the leading provider of roadside assistance across the United Kingdom, with approximately 3,000 dedicated patrols, reaching an average of 10,000 breakdowns each day. In the twelve months ended 31 July 2013, our patrols attended approximately 3.8 million breakdowns, with an average response time of approximately 46 minutes, based on the time elapsed between receiving customer calls and our patrols arriving on scene. Unlike certain other roadside assistance providers that only provide services through third-party garage networks, our patrols are trained to assess and repair a multitude of vehicle malfunctions at the roadside. In the twelve months ended 31 July 2013, our patrols successfully repaired approximately 76% of breakdowns at the roadside. As of 31 January 2013, our patrols operated through a fleet of approximately 3,000 vehicles, comprising 2,711 service vans, 209 recovery trucks and 48 service motorbikes. The AA service vans and motorbikes are each equipped with advanced tools, diagnostic equipment and technology designed to enable our patrols to achieve a high roadside repair rate. Our operations are supported by leading resource planning, deployment and communication and technology systems in order to maximise both customer service and cost efficiency.

We serve a broad spectrum of roadside assistance clients, who are divided principally between policy holders (typically individuals) who directly subscribe for roadside assistance coverage through membership agreements with us within the B2C market ("**personal members**"), and customers who receive roadside assistance coverage indirectly as an "add-on" or complementary service to the products they purchase from certain of our B2B partners in the B2B market ("**B2B customers**"). Our roadside assistance B2B partners include car manufacturers (such as Ford and General Motors), fleet and

vehicle rental companies (such as Hertz and Enterprise) and banking institutions (specifically, members of the Lloyds Banking Group). As of 31 July 2013, we had a total of approximately 13 million roadside assistance personal members and B2B customers, consisting of approximately four million personal members and approximately nine million B2B customers. We are the market leader of roadside assistance services in both the B2C and B2B markets, with approximately 40% market share in each, which is larger than the two other national competitors, the RAC and Green Flag. In addition, in each of the past six years we have been recognised as the highest rated of the major providers of roadside assistance by participants in the *Which?* magazine annual survey of providers.

Historically, our personal membership base has remained relatively stable, despite cyclicality in the broader economy. The following graph sets forth our membership levels as compared to UK real GDP growth between 1974 and 2013:



Source: Company data and ONS.

Our roadside assistance segment generated turnover of £690.2 million, or 70.8% of our total turnover, and Trading EBITDA of £331.1 million, or 72.3% of our total Trading EBITDA, excluding head office costs, for the twelve months ended 31 July 2013.

Insurance Services

Our insurance services segment consists of insurance broking, home emergency services and financial services intermediation. We are one of the leading insurance brokers in the United Kingdom, with approximately 700,000 motor insurance policies and approximately 900,000 home insurance policies in force at 31 July 2013. According to industry sources, we are the number three insurance broker in the United Kingdom based on total number of policies in force. We offer motor, home, travel and other more specialised insurance policies to both roadside assistance personal members and non-members. A core element of our strategy is to cross-sell our insurance products to our roadside assistance personal members. For example, while approximately 65% of our motor insurance customers were also personal members as of 31 January 2013, only approximately 11% of our personal members purchased our motor insurance, demonstrating future cross-selling opportunities to our personal members. Pricing for our insurance policies is principally determined by our insurance underwriting panel, although we have the ability to influence motor insurance pricing by providing members of our insurance underwriting panel with certain risk-related information, including proprietary data we collect in connection with our roadside assistance segment and external data such as credit scores. We believe that our proprietary data provides us with a competitive advantage over direct writers of insurance and other insurance brokers in that it provides information that allows our underwriters to assess risk more accurately.

We launched our home emergency service in 2010, which has grown rapidly from approximately 328,000 covered homes as of 31 January 2011 to approximately 1.1 million covered homes as of 31 July 2013 (including B2B customers), representing a CAGR of 62.3%. Our home emergency service responds to various types of home emergencies, including plumbing, power loss and boiler and central heating repair.

We began offering financial services intermediation in 1980, long before many other non-bank brands in the United Kingdom. Our products and services include savings accounts, unsecured loans, credit cards, currency cards and life insurance policies. Our financial intermediation service products are offered under the AA brand through the following B2B partners: Birmingham Midshires (Lloyds Banking Group), The Co-Operative Bank, MBNA (Bank of America) and Friends Life (Resolution).

Our insurance services segment generated turnover of £157.3 million, or 16.1% of our total turnover, and Trading EBITDA of £94.8 million, or 20.7% of our total Trading EBITDA, excluding head office costs, for the twelve months ended 31 July 2013.

Driving Services

According to industry sources, we are the largest driving school in the United Kingdom based on market share and we have approximately 2,900 franchised instructors. As such, we are approximately twice the size of the second largest driving school in the country. We offer driver education services to beginners under the AA brand, as well as through the British School of Motoring ("**BSM**"), which we acquired in 2011 and continue to operate under the BSM brand. We also provide driver education services to more experienced drivers through DriveTech (UK) Limited ("**AA DriveTech**"), our driver training company specifically designed for commercial and professional drivers. In addition, on behalf of certain local police forces, AA DriveTech also provides driver training to individuals who have committed certain driving offences. We have contracts with 14 of the 44 police forces in England, Wales and Northern Ireland and are a leading service provider of driver education programmes for police authorities and local government entities in the United Kingdom.

Our driving services segment includes our ancillary media business, which publishes and sells AA-branded road atlases and provides online route planning, traffic information and maps via the AA Route Planner on our website. Our media business also offers accreditation services for hotels and restaurants.

Our driving services segment generated turnover of £88.7 million, or 9.1% of our total turnover, and Trading EBITDA of £18.2 million, or 4.0% of our total Trading EBITDA, excluding head office costs, for the twelve months ended 31 July 2013.

AA Ireland

In addition to the business segments described above, according to industry sources, we are a leading provider of roadside assistance and insurance broking in Ireland. As of 31 July 2013, we had approximately 114,000 roadside assistance personal members and approximately 158,000 B2B customers, as well as approximately 108,000 motor insurance customers and approximately 65,000 home insurance customers, in Ireland.

Our Irish segment generated turnover of £39.0 million, or 4.0% of our total turnover, and Trading EBITDA of £14.2 million, or 3.1% of our total Trading EBITDA, excluding head office costs, for the twelve months ended 31 July 2013.

Other

In addition to our four core segments, historically we also engaged in reinsurance underwriting, which we conducted through our reinsurance underwriting vehicle, Acromas Reinsurance Company Limited ("**ARCL**"). Historically, ARCL made up the entirety of our insurance underwriting segment in our results of operations. Although ARCL did not engage in any reinsurance activities during the year ended 31 January 2013, in July of this year it began reinsuring certain policies insured by one of our affiliates, Acromas Insurance Company Limited ("**AICL**"). We intend for AICL to cease underwriting the type of insurance policies reinsured by ARCL from 1 November 2013. In addition, in the future, we may conduct underwriting activities through Automobile Association (Gibraltar) ("**AAG**"), formerly known as Automobile Association Insurance Company Limited, and reinsure those policies through ARCL. On 26 June 2013, we transferred the entire share capital of ARCL from TAAL to the Company. In addition, on 24 October 2013, Acromas Bid Co Limited transferred all the share capital and assets of AAG to the Company. Under the terms of our financing arrangements, we may prepare and present future consolidated financial statements for an AA Group entity other than the Company. As a result of the transfer described above, the results of operations of ARCL will not be reflected in of the Company's subsidiaries' results of operations or reported on going forward. Furthermore, AAG has not historically been, and will not in the future, be reflected in any of the Company's subsidiaries' results of operations.

Our Strengths

Widely recognised and trusted consumer brand

The AA brand is one of the most widely recognised consumer brands in the United Kingdom, with over 100 years of operating history and over half of UK households subscribing to at least one AA product. We believe that our excellent customer service has resulted in high levels of customer satisfaction and that, as a result, we have successfully positioned the AA as the UK's "4th Emergency Service." Customer engagement is high, and on average, each of our personal members will use the service once every two years. Our nationwide reputation is evident through our own and independent surveys indicating leading levels of brand favourability and satisfaction among UK consumers. The AA has achieved the highest overall score of the major roadside assistance providers in each of the past six years, as assessed by *Which?*, one of the largest consumer organisations in the United Kingdom.

Our brand is further enhanced through the AA's approximately 3,000 branded "yellow" patrol vehicles, which provide us with a strong market presence and high visibility on the road. Our brand is also highly visible through our road signage, publishing and hotel and restaurant accreditation services. In addition, our AA Routeplanner website served

approximately 2.4 million routes per week on average during the year ended 31 January 2013 and our suite of AA branded mobile apps were downloaded approximately 3.9 million times to date. Due to the strength of the AA brand, we have successfully implemented an affinity-based expansion model, enabling us to develop complementary products and services beyond traditional roadside assistance services.

Market leader in the UK roadside assistance market

According to industry sources, the total UK vehicle recovery service market generated approximately £1.5 billion as of December 2011, covering approximately 29 million policies. In addition, the market has been resilient throughout the recent economic crisis, as consumers in the United Kingdom have demonstrated a propensity to retain their roadside assistance coverage. This supports the view that the service is one that our personal members may opt to maintain in spite of reductions in household income.

We are the largest roadside assistance provider in the United Kingdom based on market share, with approximately four million personal members and nine million B2B customers, representing approximately 44% and 42% of the B2C and B2B markets, respectively (according to industry sources), significantly larger than the next largest roadside assistance provider, the RAC. At 31 January 2013, approximately 1.5 million personal members had been with the AA for more than 10 years, of which approximately 800,000 had been personal members for more than 20 years. See "*Business—Our Products and Services—Roadside Assistance*."

Significant barriers to entry in a mature and concentrated market

The roadside assistance market in the United Kingdom is a mature and concentrated market. The three primary market participants are the AA, the RAC and Green Flag, which together account for approximately 80% of the combined B2C and B2B roadside assistance markets. The most recent of these to enter the market was Green Flag in 1971 and, according to industry sources, it accounted for approximately 12% of the B2C market and approximately 14% of the B2B market as of 31 January 2013. We believe that the substantial resource and scale required to operate an efficient national roadside service, combined with high start-up costs for new market entrants, pose significant barriers to entry. The AA is well positioned within the market as a result of the following brand specific factors:

- the strength of the AA brand established over a 100-year operating history has fostered high levels of trust and loyalty among our customer base and has contributed to our high customer retention rates;
- our national coverage and the economies of scale we achieved through our approximately 3,000 dedicated patrols allow us to reach our customers quickly and to provide high quality service to approximately 3.8 million breakdowns per year at a lower cost per breakdown than competitors with less scale and that employ third-party garage networks;
- our sophisticated deployment processes and delivery systems for addressing breakdowns have been specifically developed by the AA over years of operational experience and would be difficult and expensive to replicate;
- our proprietary database of approximately 20.0 million individuals who have consented to receive communications from the AA provides us with a significant platform to cross-sell our complementary products and services and provides us with critical data for our pricing models; and
- well-established relationships with our B2B partners, whereby we are able to provide high-quality service to their customers, as well as important statistical data such as vehicle faults and performance information to the B2B partners themselves.

We believe these brand specific factors, combined with the significant barriers to entry in the roadside assistance market described above, have allowed us to maintain our leading market position in a mature and concentrated market.

Diversified and substantial customer base with potential for high product and service cross-holding levels

As of 31 January 2013, approximately 16.0 million customers, representing approximately 51% of UK households, subscribed to at least one AA product or service and approximately 55% of our customers had more than one of our products or services. We believe that there is further potential to increase the cross-holding of our products and services, particularly among our roadside assistance personal members. For example, while approximately 65% of our motor insurance customers were also personal members as of 31 January 2013, only approximately 11% of our approximately four million roadside assistance personal members were motor insurance customers. We believe this represents a significant opportunity for increased motor insurance sales to our roadside assistance personal members. Our extensive proprietary database provides us with a cost-efficient platform to cross-sell our complementary products and services, including our insurance and home emergency products and services, on a targeted basis to our existing customers, thereby increasing value per customer.

Strong market positions across an attractive portfolio of complementary product offerings

By leveraging the strength of the AA brand, we began successfully expanding into the UK motor and home insurance broking market in 1967, as well as the financial services intermediation market in 1980, the driving services market in 1992 and the home emergency services market in 2010.

We are one of the leading insurance brokers in the United Kingdom and have a long history of distributing motor, home and other insurance products to both personal members and non-members, with approximately 1.9 million policies currently in force as of 31 July 2013. We have achieved a high degree of cross-penetration between our business segments. Of our motor and home insurance customers, approximately 65% and 44%, respectively, were also AA roadside assistance personal members as of 31 January 2013.

We launched our home emergency services in December 2010, largely building on our existing AA sales and operational infrastructure and taking advantage of our significant experience in managing substantial and sophisticated deployment processes. Having rapidly established the AA as a leading player in the home emergency market, we served approximately 1.1 million households as of 31 July 2013, through our B2C and B2B relationships, with a significant cross-penetration of approximately 62% of home emergency members already subscribing to our roadside assistance services as of 31 January 2013.

We are the largest driving school in the United Kingdom based on market share according to industry sources, with approximately 2,900 franchised instructors teaching individuals to drive or how to become driving instructors.

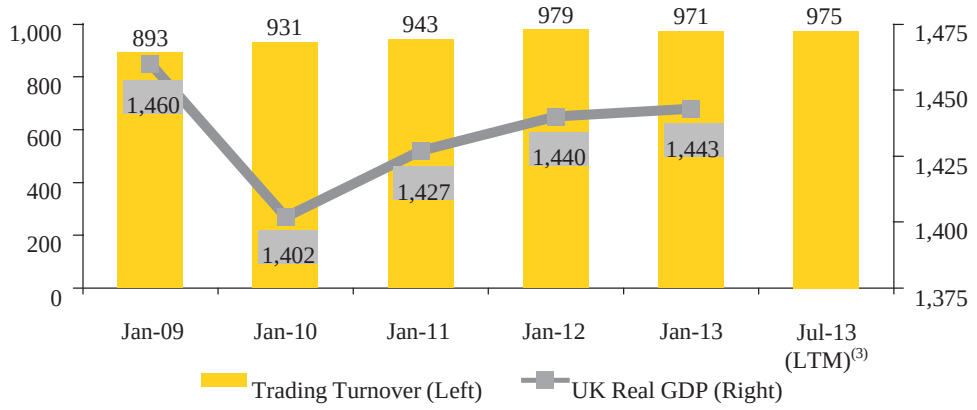
Additionally, the AA provides financial services intermediation products such as savings accounts, unsecured loans, credit cards, currency cards and life insurance policies, with a portfolio of approximately 137,000 savings account customers with savings deposits of approximately £2.9 billion through our business partner, Birmingham Midshires (Lloyds Banking Group), as of 31 July 2013.

Resilient business model with high recurring turnover and significant cash flow generation

We have maintained a strong historical performance through the economic cycle, as reflected in the charts below presenting our Trading turnover (defined as turnover excluding turnover not allocated to a segment) and Trading EBITDA for the five years ended 31 January 2013 and twelve months ended 31 July 2013 compared to UK Real GDP for the five years ended 31 December 2012:

Trading turnover(1) (£ in million) and UK Real GDP(2) (£ in billions)

2009-July 2013 Trading turnover CAGR: 2.0%

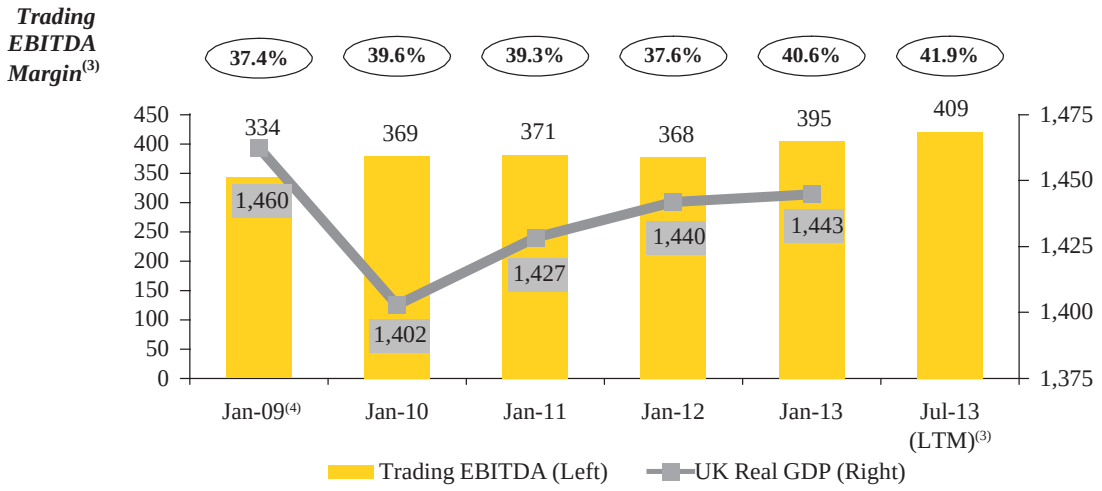


(1) Trading turnover includes turnover from insurance underwriting. Trading turnover for the financial years ended 31 January 2009 and 2010 was derived from our management accounts and Trading turnover for the financial years ended 31 January 2011, 2012 and 2013 was derived from our audited consolidated financial statements.

(2) UK Real GDP is presented for the five years ended 31 December 2012 (Source: IMF).

(3) Trading turnover for the twelve months ended 31 July 2013 has been derived by adding the results of operations for the six months ended 31 July 2013 to the difference between the results of operations for the full year ended 31 January 2013 and the six months ended 31 July 2012.

Trading EBITDA[1] (£ in million) and UK Real GDP[2] (£ in billions)



(1) Trading EBITDA for the financial years ended 31 January 2009 and 2010 was derived from our management accounts and Trading EBITDA for the financial years ended 31 January 2011, 2012 and 2013 was derived from our audited consolidated financial statements.

(2) UK Real GDP is presented for the five years ended 31 December 2012 (Source: IMF).

(3) Trading EBITDA and Trading EBITDA Margin for the twelve months ended 31 July 2013 have been derived by adding the results of operations for the six months ended 31 July 2013 to the difference between the results of operations for the full year ended 31 January 2013 and the six months ended 31 July 2012.

(4) Beginning on 1 February 2009, we have capitalised internal labour costs. We have not restated our results for the year ended 31 January 2009 to reflect this change in our accounting policies. We estimate that this amount would have increased Trading EBITDA by £3.5 million in the year ended 31 January 2009.

We have high member and customer retention rates within each of our major segments as a result of both individual customer brand loyalty and significant multi-year B2B contracts, which provide recurring turnover and significant cash flow generation. We estimate that approximately 84% of our turnover and approximately 92% of our profit contribution (defined as turnover less marketing and service delivery costs) for the year ended 31 January 2013 was derived from repeat business. The average personal member retention rate within our roadside assistance segment was approximately 79% in the year ended 31 January 2013. The average tenure of personal members within our roadside assistance segment was approximately 11 years, with retention rates increasing with membership tenure. The data which we have collected comparing our personal roadside assistance membership to UK GDP for the last 40 years indicates that our personal roadside assistance membership base has remained relatively stable, despite cyclicality in the broader economy. Our insurance services products, principally motor and home insurance and home emergency, had an average retention rate of approximately 71% for the year ended 31 January 2013.

Furthermore, the implementation of new customer administration systems in our roadside assistance and insurance segments over the past three years has increased the volume and quality of data available to us, allowing us to improve our pricing and non-pricing retention capabilities.

We have high cash conversion ratios (defined as available cash inflow from operating activities divided by Trading EBITDA) of 94.3% and 101.7% in the year ended 31 January 2013 and the twelve months ended 31 July 2013, respectively, as we have favourable working capital dynamics due to the fact that the majority of our personal members pay for services in advance and the majority of our suppliers are paid after the provision of goods and services.

Experienced and proven management team complemented by a dedicated workforce

Our management team is highly experienced, with an average tenure of approximately seven years with the AA and a strong historical track record of growing our Trading EBITDA. In recent years, for example, our management team has overseen the extension of our cross-sale activities through our expanded range of services, the organic development of our home emergency segment, the replacement of customer administration systems and the development of the driving services segment through both organic development and bolt-on acquisitions. These activities were delivered in addition to the ongoing improvements in profit contribution from both B2C and B2B roadside assistance activities. Furthermore, over the past year, our management team has streamlined our call centre operations, removing management duplication and improving call handling efficiencies.

We also have a highly skilled and experienced workforce with an average roadside assistance patrol tenure of over 10 years. Our hiring process for automotive technicians is selective and once hired, our patrol members receive additional training and support and are subject to ongoing evaluation. We believe that the excellent quality of our workforce contributes to our high roadside repair rates, which in turn contributes to customer retention.

Our Strategy

Continue to enhance and develop our roadside assistance service offerings

We believe that our highly skilled and experienced workforce and our strong track record in the roadside assistance service industry are key factors driving our ability to win new personal members and retain and extend existing contracts. We intend to continue to implement customised technology to enhance our roadside services and other product offerings as opportunities arise. We believe targeted investments in IT and diagnostic equipment will help ensure that our fleet continues to achieve a high roadside repair rate and provide high quality roadside service. For example, we recently equipped our standard service vans with mobile data terminals that display contact details and breakdown history for our personal members and B2B customers. In addition, we are focused on rolling out special services, such as AA Key Assist, which combines professional locksmith skills with advanced diagnostic equipment to quickly replace lost, damaged or stolen vehicle keys. AA Key Assist allows our patrols to provide replacement keys for most vehicle models within one hour of arriving at the scene. We believe that our ability to provide advanced tools, diagnostic equipment and technology at the roadside and to develop distinct value-added services differentiates us from our competitors.

Further increase value per customer through cross-selling and up-selling

One of our key priorities is the continued focus on the promotion of our products and services among our large existing personal member and customer base. In particular, we are actively cross-selling multi-product packages and up-selling existing customers to higher levels of coverage where appropriate. As of 31 January 2013, we maintained a database of approximately four million roadside assistance personal members, of which only approximately 11%, 6% and 7% purchased our motor insurance, home insurance and home emergency services, respectively. Furthermore, we believe that our roadside assistance personal members find our other products and services attractive based on the fact that as of 31 January 2013, approximately 65% of our motor insurance, 44% of our home insurance and 62% of our home emergency customers were also roadside assistance personal members. The relatively low percentage of cross-holding among our roadside assistance personal members represents an opportunity for further sales. We regularly analyse our database to identify opportunities to market products and services to our existing customers at attractive prices.

Focus insurance broking on areas of competitive advantage

We intend to continue to develop our insurance broking business, in particular by focusing primarily on our demonstrated ability to cross-sell and up-sell our extensive insurance product range to our existing customer base, including the approximately four million personal members that currently subscribe to our roadside assistance services. The insurance broking market is highly competitive and price competition is significant. As a result, we are particularly focused on capitalizing on the competitive advantage afforded to us by the size and quality of our proprietary data base to increase our sales. In particular, our substantial customer base, combined with our database management systems, allows us to collect and provide motor insurers with historical risk-related information concerning our personal members, which is only available to the AA. For example, in addition to providing generally available credit scoring information, we are able to provide information regarding our personal members to assist motor insurers in their analysis of insurance risk. We currently have proprietary data which allows preferential pricing for a majority of our personal members. We believe the data we provide to motor insurers will continue to allow us to achieve preferential pricing terms for our existing roadside assistance personal members. In addition, we believe that our regular direct contact with our existing personal members and B2B customers through our call centres will continue to provide us with a cost-efficient platform from which to sell motor, home and a variety of other insurance products on a targeted and customer-specific basis.

Grow home emergency business from a solid base

We are one of the fastest growing home emergency providers in the United Kingdom and we believe that there is significant scope for further growth. The AA covers approximately 1.1 million households out of an estimated total potential market of approximately 21.0 million households. We believe that our home emergency service is attractive to both existing roadside assistance personal members and customers in our other segments, and to prospective customers, due to the strength of our brand and our reputation for quality service. One of the key elements of our growth strategy for our home emergency services is to continue leveraging the AA brand by cross-selling our home emergency service to our existing roadside assistance personal members and home insurance customers. As of 31 January 2013, only approximately 7% of our roadside assistance personal members had purchased our home emergency services, suggesting that there is significant room for future growth within our existing customer base. We also intend to focus on up-selling our existing home emergency customers to higher levels of coverage, such as our boiler and central heating repair policies. Building on the success of our affinity-based

expansion model with our B2B partners, such as Lloyds Banking Group, which has enabled us to penetrate the B2B market, we intend to continue to create similar relationships with other banks and financial institutions, utility companies and affinity groups to promote our home emergency service expertise.

Maintain and grow driving services market share

We are a leading provider of private driver education with approximately 20% share of pupils and revenue in a fragmented market, according to industry sources. We also offer commercial driver education programmes in the United Kingdom. We intend to further develop our leading market position by extending our range of driver training and awareness products. For example, primarily through corporate contracts with AA DriveTech, we provide driver education and awareness training specifically designed for commercial and professional drivers. We aim to continue to build on our strong relationships with UK police forces, as a significant proportion of AA DriveTech customers are referred to us as a result of having committed certain driving offences. We are also developing contacts with small businesses that require their employees to enrol in driver education programmes. Although we are currently focused on maximising enrolment in our existing driving schools and training programmes, we will also consider potential selective acquisitions in this area as attractive opportunities arise.

Principal Shareholders

The shareholders of our ultimate parent are funds controlled by Charterhouse Capital Partners ("**Charterhouse**") (36%), funds controlled by CVC Capital Partners ("**CVC**") (20%), funds controlled by Permira Advisers ("**Permira**") (20%), employees (20%) and others (4%).

Charterhouse is a UK-based private equity firm that specialises in European leveraged buyouts. With a portfolio that includes financial services, industrial and manufacturing businesses, Charterhouse has approximately €7.1 billion of assets under management. CVC is a UK-based private equity firm with offices throughout Europe, Asia and the United States. CVC has completed over 300 investments in a wide range of industries and currently has secured commitments of approximately $50.0 billion. Permira is a UK-based private equity firm that specialises in the consumer, financial services, healthcare, industrials and technology and media sectors. Permira advises funds of approximately €20.0 billion.

Recent Developments

The Separation

In 2007, the AA joined Saga under common ownership and has since operated as a subsidiary of the parent company, Acromas Holdings Limited, which is owned by funds controlled by Charterhouse (36%), funds controlled by CVC (20%), funds controlled by Permira (20%), employees (20%) and others (4%). However, the AA has largely maintained independent business operations within each of its segments, with the exception of certain shared services and trading relationships among the AA Group, the Acromas Group and the Saga Group, including with respect to information technology, legal services, financial services and treasury administration.

On 2 July 2013, the operations of the AA Group were separated from the Acromas Group and the Saga Group (the "**Separation**"). However, the AA continues to be owned by Acromas and have certain shared responsibilities and trading relationships with the Acromas Group and the Saga Group. To formalise the Separation, the AA Group entered into an inter-group services agreement with the Acromas Group that governs the relationship between certain members of the AA Group, the Saga Group and the Acromas Group and sets forth the terms and conditions on which certain services are provided between such members.

Taxes

Following the Separation, members of the AA Group are able to surrender available tax losses to and accept surrenders of available tax losses from members of the Acromas Group and the Saga Group, and to enter into other tax transactions with members of the Acromas Group and the Saga Group. In the case of those members of the AA Group that form part of the Topco Restricted Group, such transactions are regulated under the Tax Deed of Covenant. The surrender of available tax losses from the Topco Restricted Group companies to the Acromas Group or the Saga Group companies or vice versa must be for consideration equal to the tax value of the losses surrendered and any other tax transactions entered into between the Topco Restricted Group companies and Acromas Group and Saga Group companies may only be entered into if any such tax transaction leaves each member of the Topco Restricted Group, taken together, and each member of the Acromas Group and the Saga Group, taken together, in no worse net economic position than they would have been in had such tax transaction not taken place.

The Tax Deed of Covenant places certain restrictions on the surrender of tax losses between members of the Acromas Group and the Saga Group and members of the Topco Restricted Group. A member of the Topco Restricted Group

may accept a surrender of tax losses from a member of the Acromas Group or the Saga Group only after (i) any member of the Topco Restricted Group which has tax losses for the relevant accounting period has agreed to surrender all such losses exclusively to other Topco Restricted Group members and (ii) any Acromas Group or Saga Group member which has tax losses for the relevant accounting period which relate to an arm's length loan granted by a bank or other financial institution has agreed to surrender all such losses exclusively to other Topco Restricted Group members.

In addition, there is a group payment arrangement whereby Saga Services Limited pays sums on account of corporation tax to HMRC on behalf of group companies, including members of the AA Group, and the members of the AA Group are members of a VAT Group that also contains members of the Acromas Group and the Saga Group, the representative member of which is Saga Group Limited. Each of these arrangements necessitates members of the AA Group making payments on account of their corporation tax liability and/or net VAT liability to Saga Services Limited and Saga Group Limited, respectively. The AA Group is therefore in the same corporation tax and VAT cash flow position as if it were a stand-alone business, albeit that instead of making direct payments to HMRC, it puts Saga Services Limited and Saga Group Limited in funds for their payments to HMRC, receiving funds from those companies and making payments for group relief. In relation to those members of the AA Group that form part of the Topco Restricted Group, such payments are regulated under the Tax Deed of Covenant.

AA Pension Schemes

The AA Group operates two defined benefit pension schemes: (i) the AA UK Pension Scheme (the "**AA UK Pension Scheme**"), which we operate for AA employees in the United Kingdom, including the Channel Islands, and (ii) the AA Ireland Pension Scheme (the "**AA Ireland Pension Scheme**"), which we operate for AA employees in Ireland. The trustees of the AA UK Pension Scheme (the "**AA UK Pension Trustee**") and the AA Ireland Pension Scheme (the "**AA Ireland Pension Trustee**") were granted shared super senior security over certain assets by certain subsidiaries of Topco and the Borrower on 2 July 2013. The terms of the £150 million security for the AA UK Pension Trustee and the £10 million security for the AA Ireland Pension Trustee and certain other agreements with the trustees regarding other pensions issues, such as scheme funding and guarantees, are set out in pensions agreements entered into in respect of each of the schemes (the "**AA UK Pension Agreement**" and the "**AA Ireland Pension Deed**," respectively).

The AA UK Pension Scheme is the largest scheme operated by the AA Group and according to the last completed actuarial valuation, which was carried out as at 31 March 2010, the AA UK Pension Scheme had a funding deficit of approximately £87 million and assets of approximately £1,222 million. An actuarial valuation with an effective date as at 31 March 2013 (the "**2013 Valuation**") is currently being conducted for the AA UK Pension Scheme. We estimate that the funding deficit with respect to the AA UK Pension Scheme as at 31 March 2013, was approximately £200 million, which is slightly higher than our prior estimate of approximately £180 million, which was made at the time of the Refinancing. However, the funding deficit for the purposes of the finalised 2013 Valuation will depend on the assumptions we agree with the AA UK Pension Trustee, which are not yet final. In light of the increased deficit in the context of the 2013 Valuation, we intend to implement an asset-backed funding structure (the "**ABF**"), which will provide the AA UK Pension Scheme with an inflation-linked income stream over 25 years (with the first annual payment expected to be in the region of £12 million), which is intended to address the funding deficit that will be disclosed in the 2013 Valuation. Typically, funding deficits are addressed over a much shorter period than 25 years and, in order to secure the AA UK Pension Trustee's agreement to this longer 25-year term under the ABF, the AA UK Pension Trustee's existing security will be released and replaced with first-ranking security (through the ABF structure) over our brands up to a value of £200 million. A non-binding term sheet setting out the terms of the ABF previously was agreed with the AA UK Pension Trustee and appended to the otherwise binding AA UK Pension Agreement. The documents required to implement the ABF are currently being negotiated and we intend to implement the ABF in conjunction with the 2013 Valuation documents. If the ABF is not implemented, then the AA UK Pension Trustee's security will remain at its present value of £150 million. There can be no assurance that the funding deficit with respect to the AA UK Pension Scheme will not increase in the future, whether or not the ABF is implemented, which may result in materially higher payments to the AA UK Pension Scheme being required to address such increased deficit.

The AA Ireland Pension Trustee's security will remain in place irrespective of whether the ABF is implemented in respect of the AA UK Pension Scheme.

As a result of a recent law change, certain employers in the United Kingdom are now required to automatically enrol eligible employees (who are not already members of a qualifying pension scheme) into a qualifying pension scheme with a minimum level of employer contributions. The AA Group became subject to these obligations with effect from 1 April 2013. The AA Group has automatically enrolled 2,656 eligible employees who were not already members of a qualifying pension scheme (such as the AA UK Pension Scheme) into a separate group personal pension plan operated by a third party pension provider, of which 293 opted out, resulting in an additional pension cost of approximately £0.8 million per annum.

The Migration

One of our subsidiaries, TAAL, is incorporated in Jersey and is regulated by the Jersey Financial Services Commission ("**JFSC**") as a registered person under the Financial Services (Jersey) Law 1998 to carry on general insurance mediation business, as more fully described under "*Regulatory Overview—TAAL Jersey Regulatory Overview*." Consequently, TAAL is subject to certain requirements imposed by Jersey law, which, among other things, requires prior approval from the JFSC to transfer direct and indirect ownership in TAAL or appoint a liquidator or an administrator, or to perfect any assignment of title to or enforce any security interest granted in respect of the share capital of TAAL or any parent company of TAAL. Accordingly, in order to facilitate enforcement of the Obligor Security in the future, including the appointment of an administrative receiver, TAAL and Automobile Association Developments Limited ("**AADL**"), an entity incorporated in England, entered into a business transfer deed (the "**Business Transfer Deed**") in connection with the Refinancing, pursuant to which TAAL agreed to sell, and AADL agreed to buy, the business of TAAL as a going concern and the legal and beneficial title to substantially all the income producing assets of TAAL. In connection with the sale, AADL assumed all the liabilities of TAAL, as well as agreed to pay the book value of the transferred assets.

Substantially all the income producing assets of TAAL are being transferred in accordance with the terms set out in the Business Transfer Deed. The transfers commenced in September and all employees and pension arrangements have been transferred and the process of transferring property interests, customers and suppliers is in progress. No impact on the Group's operations or trading performance is expected to arise from this transfer. AADL has been substituted for TAAL as the sponsoring employer under the AA UK Pension Scheme. The transfer of supplier contracts, finance leases and leases of real estate, which are subject to the receipt of applicable third-party consents, are also in progress. Following the transfer of employees to AADL, TAAL and AADL entered into a transitional services agreement to ensure TAAL is able to discharge its duties in respect of assets that have yet to be transferred or which do not form part of the assets being sold to the same standard that it has applied prior to the date of the Business Transfer Deed.

Trading Update

We expect that our Trading EBITDA for the nine months ended 31 October 2013 will be higher than our Trading EBITDA for the nine months ended 31 October 2012.

The above information is not intended to be a comprehensive statement of our financial or operational results for the nine months ended 31 October 2013. The preliminary estimates above were prepared based on a number of assumptions and estimates that are subject to inherent uncertainties and subject to change. Accordingly, our actual results for the nine months ended 31 October 2013 may vary from our preliminary estimates above, and such variations could be material. See "*Forward-Looking Statements*" and "*Risk Factors*" for a more complete discussion of certain of the factors that could affect our future performance and results of operation.

The Refinancing

On 2 July 2013, we entered into the financing transactions described below in connection with (i) the partial repayment of outstanding debt under the Acromas Group's Existing Senior Facility Agreement and (ii) the repayment in full of outstanding debt under the Acromas Group's Former Mezzanine Facility Agreement (together with the issuance of Additional Class A Notes on 27 August 2013 as further described below, the "**Refinancing**").

On 2 July 2013, AA Bond Co Limited ("**Bond Co**") issued:

- £625,000,000 aggregate principal amount of Class A Secured Notes due 2043 (the "**Initial Class A Notes**") and lent the proceeds therefrom to AA Senior Co Limited (the "**Borrower**") pursuant to one or more term loans (the "**Initial Class A Loans**") under the Class A Issuer/Borrower Loan Agreement (the "**Class A IBLA**") entered into on 2 July 2013; and
- £655,000,000 aggregate principal amount of Class B Notes due 2043 (the "**Class B Notes**") and lent the proceeds therefrom to the Borrower pursuant to the Class B Loan (the "**Class B Loan**") under the Class B Issuer/Borrower Loan Agreement (the "**Class B IBLA**") entered into on 2 July 2013.

The Class A Notes were issued pursuant to a multicurrency programme (the "**Programme**"), pursuant to which further Class A Notes may be issued from time to time.

On 2 July 2013, the Borrower entered into:

- a senior term facility agreement (the "**Senior Term Facility Agreement**"), pursuant to which a senior term facility of up to £1,775 million (the "**Senior Term Facility**") was made available; and
- a working capital facility agreement (the "**Working Capital Facility Agreement**"), pursuant to which a revolving working capital facility of up to £150 million (the "**Working Capital Facility**") was made available.

On 2 July 2013, Bond Co and the Borrower also entered into a liquidity facility agreement (the "**Liquidity Facility Agreement**"), pursuant to which a liquidity facility of up to £220 million (the "**Liquidity Facility**") was made available.

The gross proceeds from the Initial Class A Loans, the Class B Loan and the Senior Term Facility were used to partially repay outstanding debt under the Existing Senior Facility Agreement and fully repay outstanding debt under the Former Mezzanine Facility Agreement, as well as pay fees and expenses associated with the Refinancing. Any amounts drawn under the Working Capital Facility Agreement will be used to meet working capital needs. Any amounts drawn under the Liquidity Facility Agreement will be used to meet certain liquidity shortfalls, including for the purpose of servicing interest payments on the Class A Notes or the Class A Loans, as the case may be. As of 24 October 2013, the Liquidity Facility and the Working Capital Facility were undrawn. However, on 2 July 2013, the Borrower entered into an ancillary facility under the Working Capital Facility, which allows the Borrower to extend letters of credit in an aggregate amount of up to £10.0 million at any time. As of 24 October 2013, the Borrower issued letters of credit in the aggregate amount of £7.3 million to various insurers that provide insurance coverage to the AA Group.

On 27 August 2013, Bond Co issued a further £175,000,000 of Class A1 Secured Notes due 2043 and £175,000,000 of Class A2 Secured Notes due 2043 at a premium of £11.4 million (the "**Additional Class A Notes**" and, together with the Initial Class A Notes, the "**Class A Notes**") and lent the proceeds therefrom to the Borrower pursuant to one or more additional term loans (the "**Additional Class A Loans**" and, together with the Initial Class A Loans, the "**Class A Loans**") under the Class A IBLA. The net proceeds from the Additional Class A Loans were used to repay £362,000,000 of outstanding debt under the Senior Term Facility Agreement. The Group will continue to monitor market conditions to assess when, and if, it is appropriate to issue further Class A notes.

RISK FACTORS

In addition to the other information contained in this report, you should carefully consider the following risk factors. The occurrence of any of the events discussed below could materially adversely affect our business, financial condition and results of operations. The risks described below are not the only ones we believe we are exposed to. Additional risks that are not currently known to us, or that we currently, based on our regular risk assessment, consider to be immaterial, could significantly impair our business activities and have a material adverse effect on our business, financial condition and results of operations. The order in which these risks are presented is not intended to provide an indication of the likelihood of their occurrence or of their severity or significance.

This Report also contains forward-looking statements that are based on assumptions and estimates and are subject to risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of many factors, including, but not limited to, the risks described below and elsewhere.

Risks Relating to Our Business and Industry

Maintaining favourable brand recognition is essential to our success, and failure to do so could materially and adversely affect our business, financial condition and results of operations.

Our brand name, the "Automobile Association" or the "AA," enjoys a high degree of familiarity and awareness in the United Kingdom. We depend on the integrity of our brand and our reputation for quality of service for our business and we believe favourable recognition of our brand is important to maintaining a key position in an industry where trust and confidence with customers are paramount. See "*Business—Our Strengths—Widely recognised and trusted consumer brand*." Nevertheless, factors affecting brand recognition are often outside our control, and our efforts to maintain or enhance favourable brand recognition, such as making significant investments in marketing and advertising campaigns, may not have their desired effects. We are also exposed to possible brand damage from poor performance in terms of customer service, either at the roadside or in dealing with customer emergencies in the home. We are exposed to the risk that litigation, employee misconduct, operational failures, the outcome of regulatory or other investigations or actions, the reputations and actions of our B2B and other business partners, press speculation and negative publicity, among others, whether or not founded, could damage our brand and our reputation. By virtue of the fact that we have such a highly visible and widely recognised brand, we are particularly exposed to mistakes or misconduct, or allegations thereof, by our technicians and other employees, contractors or agents. Furthermore, any decline in perceived favourable recognition of our roadside assistance segment could have an adverse impact on the reputation of our other segments, and vice versa. A decline in favourable recognition of our brand could also impact our ability to attract or retain personal members or B2B customers, which may have a material adverse effect on our business, financial condition and results of operations.

Our operations are highly dependent on the proper functioning of information technology ("IT") and communication systems, and the failure or unavailability of such systems or our inability to keep pace with new technology developments could harm our reputation, result in the loss of personal members and corporate customers and have a material adverse effect on our business, financial condition and results of operations.

We rely heavily on our operational processes and in-house IT and communication systems to conduct our business, including for purposes of maintaining accurate customer service and records, managing our fleet of service vehicles and locating personal members and corporate customers experiencing automobile breakdowns or home emergencies. Our processes and systems may not operate as expected, or may not fulfil their intended purpose. For example, we recently experienced a fault with our electronic billing system, which resulted in a temporary delay in billing. While this fault was resolved in a timely manner, the recurrence of a similar fault or instances in which our processes and systems do not operate as expected or fulfil their intended purpose, may result in our operations being inefficient, ineffective or inaccurate and, in turn, adversely affect the overall operational and financial performance of our business. Any IT or related systems inefficiencies could also result in an inability to provide our services in a timely manner, which in turn could cause material damage to our brand and reputation and adversely affect our ability to compete with our competitors. Our call centre operations could be disrupted due to loss of physical infrastructure, insufficient staff or other reasons. If our personal members or corporate customers experience a lack of quality service or reliability, our reputation could be damaged significantly and personal members and corporate customers may be reluctant to employ our services, which could result in the loss of existing personal members and corporate customers and a decline in turnover. As a result, any inability on our part to maintain and improve our IT and communication systems and infrastructure, or any service disruption, reliability or quality issues and their consequences could have a material adverse effect on our business, financial condition and results of operations.

We have put in place business continuity procedures, including security measures to protect against IT and related systems failure or disruption. However, these procedures may not be adequate or effective to ensure that we are able to carry on our business in the ordinary course if our IT systems fail or are disrupted. For example, if sufficient control and security measures are not in place, unauthorised persons could access, change and corrupt data on our servers. Furthermore, insurance coverage may prove inadequate to compensate for losses from a major business interruption.

In addition, to achieve our strategic objectives and remain competitive, we must continue to develop, upgrade and enhance our IT and communications systems and adapt our services, products and infrastructure in order to meet evolving market trends and consumer demands and keep pace with new IT developments, while at the same time maintaining the reliability and integrity of our operations, products and services. We may be required to commit substantial financial, operational and technical resources to the development of new software or other technology, the acquisition of equipment and software or upgrades to our existing systems and infrastructure. We may not be able to anticipate such developments or have the resources to acquire, design, develop, implement or utilise, in a cost-effective manner, IT and communications systems that provide the capabilities necessary for us to compete effectively. Furthermore, any delays or difficulties in implementing new or enhanced systems may keep us from achieving the desired results in a timely manner, to the extent anticipated, or at all, and we may also be unable to devote adequate financial resources to develop or acquire new technologies and systems in the future. Any failure to adapt to technological developments could have a material adverse effect on our business, financial condition and results of operations.

Our business relies on key contractual relationships with certain corporate customers, and the loss of any such corporate customers could have a material adverse effect on our business, financial condition and results of operations.

We have a number of important B2B partner accounts, mainly in our roadside assistance segment. In the twelve months ended 31 July 2013, our 10 largest B2B partners accounted for 13.7% of our total turnover, of which the single largest partner is Lloyds Banking Group. Prior to the separation of the Lloyds Banking Group into Lloyds Bank and TSB Bank in September 2013, Lloyds Banking Group accounted for 9.5% of our total turnover in the twelve months ended 31 July 2013. The contract with Lloyds Banking Group is due for renewal in March 2014, and we may not be able to renew the contract on satisfactory terms or at all. Birmingham Midshires, an affiliate of Lloyds Banking Group, also distributes our financial intermediation service products. The loss of our contract with Lloyds Banking Group, or other B2B contracts, to a competitor, failure to find a replacement contract at acceptable terms upon termination, or the renewal of those contracts on less advantageous terms, could materially adversely affect our business, financial condition and results of operations. Furthermore, our B2B partners may also face financial difficulties, the consequences of which could also materially adversely affect our business and reputation.

Increased competition may result in downward pressure on our pricing which may materially adversely affect our business, financial condition and results of operations.

Although there has been limited pricing pressure in recent years among our primary competitors in the roadside assistance market, we may face increased competition and price pressure in the markets in which we operate, which may result in downward pressure on our pricing and a loss of market share, which could, in turn, materially adversely affect our business, financial condition and results of operations.

We believe that price is an important competitive factor for all our business segments. Our competitors may seek to compete aggressively on the basis of pricing in order to protect or gain market share. Furthermore, the Internet has increased pricing transparency and price pressure within our markets by enabling customers to more easily obtain and compare prices being offered by companies operating in these markets. This transparency may further increase the prevalence and intensity of price competition in our industry and potentially lead to consumer pressure or regulatory intervention in the insurance services market. To the extent that we match any reduction in pricing by our competitors, our business, financial condition and results of operations could be materially adversely affected. In addition, to the extent that we do not match or remain within a competitive margin of our competitors' pricing, or if we otherwise seek to implement price increases, we may lose market share and experience a decline in turnover, which could materially adversely affect our business, financial condition and results of operations.

Our insurance broking business faces significant competition from competitors who may be larger and have access to greater financial or other resources, including global, national and local insurance companies.

We compete with global, national and local insurance companies, including direct writers of insurance coverage, as well as non-insurance financial services companies, such as banks, many of which offer alternative products or more competitive pricing for segments of the insurance market in which we operate. While we maintain a diversified panel of insurance underwriters, many of our competitors are larger than us and have greater financial, technical and operating resources, as well as the ability to underwrite their own policies. The general insurance industry is highly competitive on the basis of price, service and coverage and many distribution channels within the insurance industry have been undergoing significant changes. If our competitors price their premiums at a lower level than us and we meet their pricing, this may have a material adverse effect on the commissions we receive in connection with our broking activities. If we fail to meet their pricing, we may lose market share and experience a decline in turnover. In addition, if competitors attract current or potential policyholders from us in areas in which we compete or wish to compete, our operating performance may be materially and adversely affected.

In addition, insurance panel members could increase their prices, fail to maintain their competitive positions or withdraw from our panel, which may impact our ability to compete with the rest of the market and negatively impact our sales volumes and profitability or we could be forced to re-broker policies if one of our underwriters were to fail, which could negatively impact our profitability. Additionally, if our underwriting partners fail to resolve insurance claims in a timely or

satisfactory manner, we may be exposed to litigation with respect to any such claims. While we regularly monitor the creditworthiness of our underwriting panel members to limit the potential risk of failure and any adverse impact on our customers, the failure of any one or more of our panel members could harm our reputation, sales and profitability. Any of the events above could have a material adverse effect on our business, financial condition and results of operations.

Our technical reserves may not adequately cover actual claims due to the uncertain nature and timing of the risks that we may incur in underwriting insurance products.

Historically, we have engaged in reinsurance underwriting through ARCL, a wholly owned subsidiary of the Company. Although ARCL did not engage in any reinsurance activities during the year ended 31 January 2013, in July of this year it began reinsuring certain policies insured by one of our affiliates, AICL. We intend for AICL to cease underwriting the type of insurance policies reinsured by ARCL from 1 November 2013. In the future, we may conduct direct underwriting activities or expand our direct underwriting activities and conduct them through AAG or another appropriate entity, and reinsure those policies through ARCL or another appropriate entity.

Due to the uncertain nature and timing of the risks that we incur in underwriting insurance products, we cannot precisely determine the amounts that we will ultimately pay to meet the liabilities covered by the insurance policies we underwrite or the timing of payment and settlement of those liabilities. As such, ARCL's technical reserves may prove to be inadequate to cover actual claims costs, particularly when the settlement of liability or payments of claims may not occur until well into the future.

We maintain technical reserves to cover the estimated cost of future claims payments and related administrative expenses, with respect to losses which have been incurred, but have not been fully settled at the balance sheet date or which may occur in the future against insurance policies which have already been written prior to the balance sheet date. This includes losses that have been reported to us as well as those that have not yet been reported. The technical claims reserves that we maintain represent estimates of all expected future payments, including related administrative expenses, to bring every claim (whether reported or not), which has occurred prior to the balance sheet date to final settlement. Our premium reserves represent the higher of unexpired premiums or the estimated ultimate cost of our exposure to claims and expenses occurring after the balance sheet date against business which was written prior to such date.

We estimate technical reserves using a range of actuarial and statistical projections and assumptions across a range of variables such as the time required to learn of and settle claims, facts and circumstances known at a given time, estimates of trends, trends in the number of claims or claims of certain types, inflation in claims severity and expected future claims payment patterns. Estimates are also dependent on other variable factors, including the legal, social, economic, and regulatory environments, results of litigation, rehabilitation and mortality trends, business mix, consumer behaviour, market trends, underwriting assumptions, risk pricing models, inflation in medical care costs, future earnings inflation and other relevant forms of inflation, exchange rate movements, the cost of repairs and replacement, and estimated future receipts from third parties such as other insurers and reinsurance recoveries, as well as changes in internal claims handling processes. The inevitable variations in any of these factors contribute to the uncertainty of the technical reserves estimate.

For some claims, especially those which take several years to settle, it has been necessary historically, and may over time continue to be necessary, for us to revise our estimates of the total costs to settle the claims and, therefore, increase or release our related technical reserves.

Consequently, changes in any of these trends or other variable factors, including risks around the accuracy of the data used to estimate the technical reserves, may result in actual future claims costs and related expenses paid differing, potentially significantly, from the estimates reflected in the claims and premium reserves in our financial statements. To the extent that our technical reserves are subsequently estimated to be insufficient to cover the future cost of claims or administrative expenses, we will have to increase our technical reserves and incur a corresponding reduction in earnings/net income in the period in which the deficiency is identified.

Any significant increase in our technical reserves or estimates or expectations of the uncertainty around those technical reserves could also lead to increased regulatory capital being required and increased uncertainty around our current and future profitability.

We are exposed to further changes in the competitive landscape within the insurance industry, including increased competition from other distribution channels (particularly price comparison websites), the long-term implications of which are not yet fully understood.

Competition for general insurance products has intensified in recent years through the development of alternative distribution channels, such as price comparison websites ("**PCWs**"), including Moneysupermarket.com, Gocompare.com, Confused.com and Comparethemarket.com. PCWs are intermediaries that present multiple insurance quotes to a given buyer, allowing the buyer to make a comparison between insurance offerings based on a single set of information provided to the PCW. The long-term implications of the growth in PCWs cannot be predicted. There is potential for PCWs to increase their market penetration, including in other insurance products, such as home insurance. A movement of customers to PCWs and

away from our marketing channels could result in greater pricing pressure, as well as a reduction in our share of the insurance brokerage market or reduce the effectiveness of our marketing efforts. In addition, we could experience greater competition in our insurance services segment if PCWs seek to act as insurance brokers themselves by administrating customer policies.

Consumer behaviour and attitudes, technological changes, regulatory and legislative changes and other factors also affect competition. Generally, we could lose market share, incur losses on some of or all our activities and experience lower growth if we are unable to offer competitive, attractive and innovative products and services that are also profitable, do not choose the right marketing approach, product offering or distribution strategy, fail to implement such strategies successfully or fail to anticipate, successfully adapt or adhere to such demands and changes. Competitive pressures from new technologies and distribution channels may require changes to our and our business partners' operations, including IT and communication systems and functionality, and we may not be able to effectively respond to these new developments in a timely or appropriate manner, which could have a material adverse effect on our business, financial condition and results of operations.

We depend on suppliers to provide many of our products and services and we may not be able to renew or extend existing contracts or enter into new contracts with suppliers, which could result in increased customer churn or have other effects that could materially adversely affect our business, financial condition and results of operations.

The successful implementation of our business strategy depends, in part, on our success at renewing or entering into new contracts with suppliers of products and services on favourable terms. Our ability to renew our existing contracts with suppliers of products and services, or enter into new contractual relationships, either on commercially attractive terms, or at all, depends on a range of commercial and operational factors and events which may be beyond our control. In particular, we lease substantially all the vehicles that make up our operational fleet, covering roadside assistance, home emergency and driving services. During the year ended 31 January 2013, for example, our key supplier of vehicles withdrew from the leasing market, forcing us to re-enter the market and obtain new vehicle leasing contracts with higher interest rates. In the event that a supplier of products or services decides to terminate its relationship with us, our personal members and B2B customers may choose to obtain similar service offerings from alternative sources or providers. Our inability to maintain our existing contracts and agreements with suppliers of the various products and services which we rely upon or enter into new contracts on commercially favourable terms could lead to reduced sales, lower margins and a loss of existing personal members and B2B customers and difficulties in attracting new personal members and B2B customers, which could have a material adverse effect on our business, financial condition and results of operations.

Litigation, roadside injuries or death or regulatory inquiries or investigations could materially and adversely affect our business, financial condition and results of operations.

From time to time, we may become involved in litigation, and there is no guarantee that we will be successful in defending against such litigation. We are exposed to potential claims for personal injury and property damage resulting from the provision and use of our roadside assistance and home emergency services. For example, over the past 10 years we have had a number of claims relating to personal injury and property damage from employees, personal members and other third parties. We may be subject to future claims that could harm our reputation or have a material adverse effect on our business, financial condition and results of operations. We are also exposed to workers' compensations claims and other employment related claims by our employees. The defence of any of these claims may be time consuming and expensive. If the outcome of these claims is unfavourable to us, we could suffer damage to our reputation and our business, financial condition and results of operations may be materially adversely affected. While we currently maintain motor liability coverage for bodily injury (including death) and property damage arising from or in connection with the services provided by our patrols, we do not have specific reserves for potential litigation matters and our current liability coverage may not be sufficient to cover all claims. In addition, there can be no assurance that our insurance premiums will not increase in the future, or that we will be able to renew our motor liability coverage on commercially acceptable terms. Furthermore, although our customer call centre provides roadside assistance personal members with safety instructions in the event of a breakdown, in the past personal members have been accidentally injured or killed by passing vehicles while waiting on the roadside. Accidents such as these could expose us to civil suits, significant damages claims and liabilities and harm our reputation.

We may also be subject to regulatory and governmental inquiries and investigations. The impact of litigation and regulatory inquiries and investigations may be difficult to assess or quantify. Even if a civil litigation claim or regulatory investigation or claim is meritless, does not prevail or is not pursued, any negative publicity arising in connection with any inquiries and litigation or regulatory investigation affecting our business could adversely affect our reputation. Litigation and regulatory investigations may also result in substantial costs and expenses and divert the attention of our management. In addition to pending matters, future litigation and regulatory investigations could lead to increased costs or interruption of our normal business operations, which may have a material adverse effect on our business, financial condition and results of operations.

We collect extensive non-public data from personal members, customers, business contacts and employees, and the failure to adequately maintain and protect such information, or failure to comply with applicable data protection law, could have a material adverse effect on our business, financial condition and results of operations.

We regularly collect, process, store and handle non-public data (including name, address, age, bank and credit card details and other personal data) from our personal members, customers, business contacts and employees as part of the operation of our business, and therefore we must comply with data protection laws in the United Kingdom and the European Union ("**EU**"). Those laws impose certain requirements on us in respect of the collection, use and processing of such personal data. For example, under UK and EU data protection laws and regulations, when collecting personal data, certain information must be provided to the individual whose data is being collected. This information includes the identity of the data controller, the purpose for which the data is being collected and other relevant information relating to the processing. There is a risk that data collected by us may not be processed in accordance with notifications made to both data subjects and regulators. In some cases, the consent of those data subjects may also be required to protect the personal data for the purposes notified to them. Failure to comply with data protection laws could potentially lead to regulatory censure, fines, civil and criminal liability, reputational and financial costs. In addition, the laws that would be applicable to such a failure are rapidly evolving and may become more burdensome and costly to our operations. The scope of the notification made to, and consents obtained from, data subjects may limit our ability to deal freely with the personal data in our databases. It may not be possible for us to lawfully use that data for purposes other than those notified to data subjects, or for which they have provided consent.

We are also exposed to the risk that the personal data we control could be wrongfully accessed or used, whether by employees or third parties, or otherwise lost or disclosed or processed in breach of applicable data protection law, and we have experienced losses of personal data in the past. If we, or any of the third-party service providers on which we rely, fail to process, store or protect such personal data in a secure manner or if any such theft or loss of personal data were otherwise to occur, we could face liability under data protection laws. This could also result in damage to our brand and reputation, as well as the loss of new or existing personal members or customers, any of which could have a material adverse effect on our business, financial condition and results of operations.

Forthcoming changes to the wider EU data protection regime may also impact our operations. These changes may be implemented through a new general EU Regulation on Data Protection (the "**DPR**"), which may ultimately replace the current EU Data Protection Directive and its implementing laws in the EU and EEA member states. The DPR, if implemented in its current draft form, will be directly applicable in each EU member state in which we operate and will increase both the number and the restrictive nature of the obligations binding on us for the collection and processing of personal data. The original draft of the DPR was published by the European Commission in January 2012. The European Parliament approved a package of amendments to the European Commission's draft in October 2013. The European Council is also considering the European Commission's draft and ultimately, if the DPR is to become law, a final form will need to be established between the European Parliament, the European Commission and the European Council. The European Commission's current plan is for finalisation of the DPR during the first half of 2014 with a view to its taking effect during the first half of 2016. This timetable may not be achieved and, indeed, the DPR may never become law. If the provisions of the European Commission's draft, with or without the European Parliament's amendments, become law, we may be required to make significant changes to the way we collect, process and store personal data, which could be costly and any new data protection regime may be more onerous than the regime we are currently obliged to comply with.

We offer different prices to different types of clients, and the lack of price harmonisation across our personal member and B2B customer base may adversely affect our business, financial condition and results of operations.

As part of our efforts to achieve a high degree of cross-penetration between our business segments, we may offer discounts to certain clients in respect of our roadside assistance, insurance, home emergency or financial service products. There is a risk that market pressure from our clients who do not subscribe to products and services across our segments (and therefore do not receive discount rates) may force us to amend our pricing plans. In addition, we regularly offer lower introductory prices to attract new personal members and subsequently receive requests from existing personal members to lower their membership fees accordingly. A significant change in the number of existing personal members requesting price reductions or a significant number of personal members declining to renew their memberships upon the expiration of their introductory offer rates could materially adversely impact our financial performance.

In addition, our business model distinguishes between personal members, who subscribe for roadside assistance coverage directly through a membership agreement with us, and B2B customers, who receive roadside assistance coverage indirectly as an "add-on" or complementary service to the products they purchase from our B2B partners. If the availability of roadside assistance coverage becomes more prevalent as an add-on to premium bank accounts or other B2B products, we could potentially see a migration of our personal members to the lower-margin B2B customer book or to a third-party provider, which would also have a material adverse effect on our business, financial condition and results of operations.

We seek to control and reduce our operating costs and we may not be successful in such efforts, which could have material adverse consequences for our business, financial condition and results of operations.

We have implemented and intend to continue to implement initiatives to reduce our operating expenses. Cost control initiatives include headcount reductions, business process re-engineering and internal reorganisation, as well as other expense controls. For example, in December 2012, we closed our Basildon and Cardiff contact centres, the operations from which we redeployed within our existing Newcastle and Cheadle contact centres. While we aim to implement and maintain these cost savings and to pursue additional cost efficiencies, we may be unable to effectively control or reduce costs. Even if we are successful in these initiatives, we may face other risks associated with our plans, including declines in employee morale, the level of customer service we provide, the efficiency of our operations and the effectiveness of our internal controls. In addition, our ability to implement operating cost reductions could be hampered by the Independent Democratic Union (the "**IDU**") through industrial action. Any of these risks could have a material adverse impact on our business, financial condition and results of operations.

Severe or unexpected weather conditions could materially adversely affect our business, financial condition and results of operations.

Severe or unexpected weather conditions, including extremes in temperature, heavy rain, snowfall, hail or high winds, tend to increase the volume of calls to our roadside assistance and home emergency centres. Although we receive a certain amount of payment-for-use income with regards to our B2B contracts, the majority of our contracts are for a fixed annual fee, which means the increase in our costs will be greater than the increase in revenue received as a result of increased call-outs during times of severe weather. Repercussions of severe or unexpected weather conditions may also include an inability to respond quickly and efficiently to calls from our personal members and B2B customers, loss of productivity and even necessary curtailment of services. Any delay in our performance or disruption of our operations due to severe weather conditions could have an adverse effect on our reputation and decrease the demand for our services, which would have a material adverse effect on our business, financial condition and results of operations.

We operate almost exclusively in the United Kingdom and difficult conditions in the UK economy may have a material adverse effect on our business, financial condition and results of operations.

In the twelve months ended 31 July 2013, we generated 97% of our total Trading EBITDA in the United Kingdom. As we operate almost exclusively in the United Kingdom and will be required to do so in the future in accordance with the terms governing certain of our indebtedness, our success is closely tied to general economic developments in the United Kingdom and cannot be offset by developments in other markets. Negative developments in, or the general weakness of, the UK economy and, in particular, higher unemployment, lower household income and lower consumer spending may have a direct negative impact on the spending patterns of personal members and B2B customers, both in terms of the services they subscribe for and the amount of insurance and other products they purchase. Furthermore, Moody's Investor Services and Fitch Ratings Ltd. downgraded the UK's domestic and foreign currency governmental bond ratings in February and April, respectively, as a result of a weaker economic and fiscal outlook. The UK government is undertaking a substantial austerity programme, with significant reductions in public service spending, among others. The implications of the recent downgrade and the governmental austerity programme on consumer spending patterns is unknown. However, this or any other negative economic developments in the United Kingdom could reduce consumer confidence, and thereby could negatively affect earnings and have a material adverse effect on our results.

In addition, any deterioration in the UK economic and financial market conditions, including the recent credit downgrade of the UK's bond ratings and the UK government's austerity programme, may:

- cause financial difficulties for our suppliers and B2B partners, which may result in their failure to perform as planned and, consequently, create delays in the delivery of our products and services;
- result in inefficiencies due to our deteriorated ability to forecast developments in the markets in which we operate and failure to adjust our costs appropriately;
- cause reductions in the future valuations of our investments and assets and result in impairment charges related to goodwill or other assets due to any significant underperformance relative to our historical or projected future results or any significant changes in our use of assets or our business strategy;
- result in increased or more volatile taxes, which could negatively impact our effective tax rate, including the possibility of new tax regulations, interpretations of regulations that are stricter or increased effort by governmental bodies seeking to collect taxes more aggressively;
- result in increased customer requests for reduced pricing and reduced renewal rates.

Although the recent economic downturn in the United Kingdom has not materially affected our personal membership base or B2B customer base, a delayed recovery or a worsening of economic conditions may lead to a decrease in subscribers to our roadside assistance services, our insurance products and generally result in personal members and B2B customers terminating their relationship with us. Therefore, a weak economy or negative economic development could have a material adverse effect on our business, financial condition and results of operations.

Our membership numbers could decline or our business mix could change if there is a decrease in the average age of vehicles used in the United Kingdom, if service intervals or manufacturer guarantees are extended or if vehicles are used to a lesser extent.

As vehicles get older, the likelihood of breaking down generally increases. Therefore, a decrease in the average age of vehicles in the United Kingdom could lead to a decline in demand for our B2C roadside assistance products and services. In addition, technological and qualitative improvements of some motor vehicle components can reduce the likelihood of motor vehicles breaking down, which can also lead to a decrease in demand for our roadside assistance services by both our personal members and B2B customers. A decrease in demand for our roadside assistance services may lead to certain of our B2B partners declining to renew their contracts with us. In addition, in the event automobile manufacturers continue to expand the scope of their warranties and roadside assistance coverage beyond current limits (for example, as a result of changes in the legal environment), engage in greater promotion of roadside assistance at the point of service in their dealerships, or improve vehicle technologies so as to identify potential breakdowns before they occur, demand for our B2C roadside assistance products and services may be negatively impacted.

There could also be a decline in demand for our roadside assistance services because of reduced vehicle use or reduced vehicle ownership, which can result from rising costs (for example, higher petrol prices, higher petrol taxes and higher insurance prices), a significant deterioration in economic conditions, any future new vehicle incentives, changes in travelling or commuting behaviour or growing environmental concerns. According to the Society of Motor Manufacturers and Traders ("**SMMT**"), for example, the numbers of new car registrations has declined almost every year between 2005 and 2011 (Source: www.smmt.co.uk). This decline may continue in the future and the effects of any such decline may not be offset by any positive effects we may experience from an increase in the size and age of the UK car parc (which has increased between 2005 and 2011), thus resulting in an overall decrease in revenues. See "*Industry*." In addition, a decline in demand for our roadside assistance services could impact or alter the mix of our product and services offerings. Any such decline in demand could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to protect our brand and related intellectual property rights from infringement or other misuse by others and we may face claims that we have infringed the trademarks or other intellectual property rights of others.

Our brand constitutes a significant part of our value proposition. We rely primarily on trademarks and similar intellectual property rights to protect our brand. The success of our business depends on our continued ability to use our existing trademarks in order to increase brand awareness and, in particular, to develop our presence and activity in those markets where we are new entrants. Policing unauthorised use of our proprietary intellectual property rights can be difficult and expensive, and we cannot be sure that the steps we have taken to protect our trademarks and other intellectual property rights will preserve our ability to enforce those rights or prevent unauthorised use, infringement or misappropriation by third parties. Additionally, legal remedies available to us may not adequately compensate us for any damages we suffer as a result of such unauthorised use. Accordingly, any material infringement or misuse of our intellectual property could have a material adverse effect on our business, financial condition and results of operations.

Moreover, we may face claims that we have infringed the trademarks or other intellectual property rights of others, including in those markets where we have not historically been active. Intellectual property litigation may be expensive and time consuming, and may divert managerial attention and resources from our business objectives. Successful infringement claims against us could result in significant monetary liability. Such claims could also delay or prohibit the use of existing, or the release of new, products, services or processes, and the development of new intellectual property. We could be required to obtain licenses to the intellectual property that is the subject of the infringement claims, and resolution of these matters may not be available on acceptable terms within a reasonable timeframe or at all. Generally, intellectual property claims against us and any inability to use our trademarks could have a material adverse effect on our business, financial condition and results of operations, and such claims may result in a loss of intellectual property protections relating to our business.

We may make acquisitions or disposals in the future, which transactions may not achieve the expected results or may expose us to contingent or other liabilities and materially adversely affect our business, financial condition and results of operations.

We intend to continue to consider opportunistic strategic transactions, which could involve acquisitions or dispositions of businesses or assets and could result in shifts in the current mix of our product and services offerings. For any acquisitions which we identify, we will need to conduct appropriate due diligence, including, as appropriate, an assessment of the adequacy of claims reserves, an assessment of the recoverability of reinsurance and other balances, enquiries with regard to outstanding litigation and consideration of local regulatory and taxation matters. Consideration will also need to be given to potential costs, risks and issues in relation to the integration of any proposed acquisitions with our existing operations. However, the due diligence undertaken may not be accurate or complete, and such due diligence may not identify or mitigate all material risks to which the entity being acquired is exposed, including contingent or unanticipated liabilities. In addition, the integration of any proposed acquisition may not be successful or in line with our expectations and may pose a disruption to our ongoing business. We also may not obtain appropriate or adequate contractual representations, warranties and indemnities in connection with any acquisition. We may also provide representations, warranties and indemnities to counterparties on any disposal, which may result in claims being asserted against us by the applicable counterparties. Any acquisitions or dispositions of businesses or assets and shifts in the current mix of our product and services offerings, may divert managerial attention and resources from our business objectives.

If we enter into strategic transactions in the future, related accounting charges may affect our business, financial condition and results of operations, particularly in the case of any acquisitions. Any acquisition or disposal may result in changes to our capital structure, including the incurrence of additional indebtedness or the refinancing of our outstanding indebtedness, as applicable. Even if we identify an attractive opportunity, we may not be able to complete the acquisition or disposal successfully based on limited financial resources or onerous regulatory requirements. Losses resulting from acquisitions or disposals could damage our brand and reputation and could have a material adverse effect on our business, financial condition and results of operations.

We face a number of risks in connection with the separation from the Acromas Group and the Saga Group, which may adversely affect our business, financial condition and results of operation.

Acromas and Saga entities previously provided us with certain services, including services related to IT, treasury, legal, tax and risk management, internal audit and corporate insurance, as well as the day-to-day management of our financial services intermediation products. In connection with and following the Separation, certain of these services continue to be provided to us in accordance with the Umbrella Services Agreement. Accordingly we continue to be reliant on certain Acromas and Saga entities to provide these services. There can be no assurance that these entities will be able to provide these services in the manner and to the standard required by the Umbrella Services Agreement or that the scope of the services and service standards specified in the Umbrella Services Agreement will be suitable for our future business needs. In the event of any failure by these entities to provide us with all or any of these services or any conflict of interest or disagreement between us and these entities that disrupts the provision of any of these services, we may be required to procure their delivery from one or more third-party suppliers in the market or we may be left with an unsecured claim against the relevant Acromas entity which has failed to perform its obligations under the Umbrella Services Agreement. There can be no assurance that we will be able to transition the provision of these services to a new provider without disrupting the operation of our business. In addition, if the Acromas Group or Saga Group no longer required the provision of these services and were to terminate the Umbrella Services Agreement, we may be required to bear the increased cost of procuring these services on a stand-alone basis. There can be no assurance that we will be able to procure the provision of these services externally or internally at the same cost or better and without some disruption to the operation of our business and diversion of management's attention from the ongoing operations of the business or otherwise requiring management to expend significant energy and resources, which could materially adversely affect our business, financial condition and results of operations. Many of the terms of the Umbrella Services Agreement, including the scope and standard of services and the charges, are described by reference to general principles, and there is a risk that we might have disputes with Acromas or Saga about those terms. Except in situations where an administrator or administrative receiver has been appointed in relation to us, all disputes arising between us and the Acromas Group or Saga Group will be finally resolved by the Chief Executive Officer of the Acromas Group, rather than an independent third-party, and there is a risk that any determination might not be in our interests.

In addition, the Acromas Group is highly leveraged and will continue to be highly leveraged following the Refinancing. We have historically made payments to the group treasury function within the Acromas Group to cover various costs and expenses, including Acromas' obligations under the Existing Senior Facility Agreement and the Former Mezzanine Facility Agreement and costs and expenses relating to each of the Acromas Group and the Saga Group. As a result of the Separation, we no longer remit cash to the Acromas Group treasury function. If the Acromas Group or the Saga Group are unable to repay their existing indebtedness as it becomes due or fund their ongoing liquidity needs, their creditors may attempt to seek recourse against the AA Group. While the likelihood of any such claim or action against the AA Group by creditors of the Acromas Group or Saga Group are remote, any such claim or action may disrupt our operations, result in negative publicity, damage our brand and our reputation and may have a material adverse effect on our business, financial condition and results of operations.

We are currently in the process of implementing the Separation. While the associated costs have not been material to date, future costs could be higher and the period over which they are incurred could be longer than our expectation, which could disrupt our business operations and materially and adversely affect our business, financial condition and results of operations.

Our operations are dependent on our ability to retain the services of the members of our senior management team and to retain and attract qualified and reliable personnel.

We rely on a number of key employees, both in our management and our operations, with specialised skills and extensive experience in their respective fields. Our senior management team has extensive industry experience, and our success depends upon the continued contributions of that team. For further information on our senior management, see "*Management—Senior Management*." We also believe that the growth and success of our business will depend on our ability to attract highly skilled, qualified and reliable personnel with specialised know-how in automotive and home repair services, as well as those with IT and other specialist skills. Although we place emphasis on retaining and attracting talented personnel and invest in extensive training and development of our employees, we may not be able to retain or hire such personnel in the future. In particular, the automobile market is characterised by frequent technical advances and increases in the complexity of existing components. Certain models of vehicles and automotive components may have technical equipment so complex or innovative that they can be maintained only by persons with special training relating to those particular model vehicles. The expense of this specialisation could result in higher costs for us or in decreased demand for our roadside assistance services if it becomes no longer economically feasible for us to offer repair services for particular models or components, which could have a material adverse effect on our business, financial condition and results of operations.

In addition, the Prudential Regulation Authority ("**PRA**") and the Financial Conduct Authority ("**FCA**"), the successor to the Financial Services Authority ("**FSA**"), have the power to approve and regulate individuals in the insurance and financial intermediation businesses, respectively who have significant influence over the key functions of an insurance business or financial intermediation business, such as governance, finance, audit and management functions. The FCA also has the power to regulate individuals in the financial intermediation business who deal with customers, such as those providing advice to customers on certain insurance and financial products. The PRA or FCA (as applicable) may not approve individuals for such functions unless the respective regulator is satisfied that they have appropriate qualifications and experience and are fit and proper to perform those functions, and may withdraw approval for individuals whom it deems no longer fit and proper to perform those functions. The majority of our regulated business is subject to FCA regulation and our inability to attract and retain, or obtain FCA approval for, directors and highly skilled personnel in our businesses subject to the authority of the FCA could adversely affect our competitive position, which could in turn have a material adverse effect on our business, financial condition and results of operations.

Our business requires the work of many employees and any disruption in our workforce could materially adversely affect our business, financial condition and results of operations.

As of 1 October 2013, approximately 62% of our employees were covered by a collective bargaining agreement with the IDU, a union historically dedicated to AA employees, but more recently representing non-AA employees as well. In addition, we are required to consult with our employee representatives, such as works councils, on various matters, including restructurings, acquisitions and divestitures. For example, we regularly review the application of working practices and aspects of our patrol force employment contracts to enhance efficiency as part of our budgeting cycle. To the extent we choose to change working practices or aspects of our patrol force employment contracts, we will be required to consult with employee representatives and the IDU. Although we strive to maintain good relationships with our employees and the IDU, such relationships may not continue to be cooperative and we may be affected by strikes or other types of conflict with labour unions and employees in the future, which could impair our ability to deliver the services we provide and result in a substantial loss of turnover. The terms of existing or renewed collective bargaining agreements could also significantly increase our costs (for example, through increased wages) or negatively affect our ability to increase operational efficiency, which may in turn have a material adverse effect on our business, financial condition and results of operations.

Risks Relating to our Ownership

The interests of our controlling shareholders may be inconsistent with the interests of our investors.

The interests of our principal shareholders, in certain circumstances, may conflict with your interests as investors. As of the date of this Report, funds controlled by Charterhouse, CVC and Permira (the "**Principal Shareholders**") indirectly owned 36%, 20% and 20%, respectively, of the AA's shares. See "*Principal Shareholders*." As a result, the Principal Shareholders have, and will continue to have, directly or indirectly, the power, among other things, to affect our legal and capital structure and our day-to-day operations, as well as the ability to elect and change the AA's management and board of directors, a majority of which are currently the Principal Shareholders' representatives, and to approve any other changes to our operations. For example, the Principal Shareholders could vote to cause us to incur additional indebtedness, to sell certain material assets or make dividend payments, in each case, so long as the Class A IBLA, Class B IBLA, the Common Terms Agreement (the "**CTA**"), the STID and the other Senior Finance Documents so permit. The interests of the Principal Shareholders could conflict with the interests of the investors, particularly if our Principal Shareholders encounter financial difficulties or are unable to pay their debts when due. The incurrence of additional indebtedness would increase our debt service obligations and the sale of certain assets could reduce our ability to generate revenue. The Principal Shareholders could also have an interest in pursuing acquisitions, divestitures, financings, dividend distributions or other transactions that, in their judgment, could enhance their equity investments although such transactions might involve risks to investors.

In addition, our Principal Shareholders own Acromas and Saga and thus they have, directly or indirectly, the power, among other things, to offer competitive products and services and they may come to own businesses that directly compete with our business. We also depend on Acromas and Saga to provide services and maintain trading relationships with us following the Separation, and such relationships may result in additional conflicts of interest with our Principal Shareholders. For example, AICL currently writes insurance policies on our motor and home insurance underwriting panels and for a number of insured roadside assistance and insurance services products sold by the AA. If AICL changes its pricing strategy or withdraws from either panel or otherwise removes underwriting capacity, we may lose market share and experience a decline in turnover, which may materially adversely affect our business, financial condition and results of operations. In addition, Acromas Financial Services Limited manages and administers our saving, credit card and lending activity. Should this support be withdrawn or weakened as part of the Separation, we may lose market share and experience a decline in turnover, which may materially adversely affect our business, financial condition and results of operations.

Risks Relating to Regulatory and Legislative Matters

We are subject to complex laws and regulations that could materially and adversely affect the cost, manner and feasibility of doing business.

The industries in which we operate are materially affected by government regulation in the form of national and local laws and regulations in relation to health and safety, the conduct of operations and taxation. We are subject to prudential and consumer protection measures imposed by a number of insurance and financial services regulators, including the

European Commission, the Office of Fair Trading ("**OFT**"), HM Treasury, the UK Competition Commission and the European Competition Commission. In the United Kingdom, the PRA is the primary regulatory authority of the insurance sector and the FCA of the insurance intermediation sector. Each have prescribed certain rules, principles and guidance with which we and others in the insurance and financial services industries must comply. Such rules require, among other things, high level standards on the establishment and maintenance of proper systems and controls and minimum "threshold conditions" that must be satisfied for a firm to remain authorised, as well as rules on the conduct of business and treating customers fairly. The PRA or FCA may find that we have failed to comply with applicable regulations, have not sufficiently responded to regulatory inquiries or have not undertaken corrective action as required. Our roadside assistance business is currently operated under an exemption from requiring insurance business authorisation. Any change in law, regulation or in interpretation of law or regulation could result in this business needing to be carried out by a regulated insurer which could significantly increase the costs of the business. In each case, regulatory proceedings could result in a public reprimand, substantial monetary fines or other sanctions which could have a material adverse effect on our business, financial condition and results of operations.

Furthermore, the use of continuous payment methods in both our roadside assistance and insurance services segments contributes to our high levels of retention. Although continuous payment methods are a common market and banking practice, regulation of their use by the FCA, the OFT or another comparable regulatory authority, or the regulation of how and when we communicate with current and potential personal members and customers, could have a negative effect on our business, financial condition and results of operations.

In September 2012, the Office of Fair Trading referred the private motor insurance market to the UK Competition Commission for investigation and there is currently an investigation into whether there are any features of the overall market that prevent, restrict or distort competition. The UK Competition Commission has distributed questionnaires to a large number of entities within the private motor insurance market, including insurance underwriters, insurance brokers, PCWs, vehicle repair companies and claims handling companies. Although the timing and outcome of the UK Competition Commission's investigation remains uncertain, any new or more stringent regulation that directly or indirectly impacts the private motor insurance market could materially and adversely affect our business, financial condition and results of operations.

Our operations are also subject to various laws and regulations relating to health and safety, employment, environmental and other matters. If we fail to comply with any such laws or regulations, we could be subject to sanctions such as mandatory shut-downs, damages, criminal prosecutions and injunctive action. Changes in governmental regulations, as well as maintaining compliance with required standards, may also significantly increase our costs, the price of membership and access to our services, which in turn could materially and adversely affect our business, financial condition and results of operations.

Risks Relating to our Pension Schemes and Post-Retirement Medical Plan

We are exposed to various risks in connection with the funding of our pension commitments under the AA UK Pension Scheme, our principal defined benefit plan, which could have a material adverse effect on our business, financial condition and results of operations.

The AA Group operates two defined benefit pension schemes: (i) the AA UK Pension Scheme; and (ii) the AA Ireland Pension Scheme. Valuations of all UK defined benefit plans are required to be conducted on at least a triennial basis in accordance with legislative requirements, and the trustees and employers of the applicable plan will be required to agree a recovery plan which seeks to pay off any funding deficit that will be disclosed in the context of such valuations over an agreed period of time. The "funding deficit" will be the estimated shortfall in the amount required, on an actuarial calculation based on assumptions agreed between the employer and trustees in the context of the relevant valuation, to make provision for the scheme's liabilities. Accordingly, we are exposed to the risk that our pension funding commitments may increase over time in the context of subsequent valuations of the AA UK Pension Scheme, which could have a material adverse effect on our business, financial condition and results of operations.

The last completed triennial actuarial valuation carried out in relation to the AA UK Pension Scheme as at 31 March 2010 disclosed assets of approximately £1,222 million and a funding deficit of approximately £87 million (although the actuary allowed for a reduction of approximately £71 million in the deficit as a result of switching to the Consumer Prices Index, rather than the Retail Prices Index, as the basis for calculating increases to pensions in payment and revaluation of pensions in deferment, such that the remaining funding deficit to be addressed by way of deficit contributions was approximately £16 million). Under the schedule of contributions agreed in the context of that valuation, deficit contributions of £2.8 million are due in May 2014 (£5 million was paid in May 2013), in addition to ongoing contributions required to meet the costs of ongoing benefit accrual. At the time of the 2010 triennial valuation, we also entered into an escrow agreement in which we agreed to place £5.0 million per annum for three years (from and including 2011) into an escrow account, the proceeds which were intended to be used to meet any shortfalls determined by the AA UK Pension Trustee during the 2013 Valuation. These funds have since been released to the AA UK Pension Trustee. Regular employer contributions to the AA UK Pension Scheme in the year to 31 January 2014 are estimated to be £26.1 million. Further additional employer contributions will be required if there are any redundancies or benefit augmentations during the year.

The 2013 Valuation is currently being undertaken and, in accordance with applicable pensions legislation, will be required to be agreed between the AA UK Pension Trustee and the AA Group within 15 months following the effective date. The regulator of occupational pension schemes in the United Kingdom, which was established pursuant to the Pensions Act 2004 (the "**Pensions Regulator**"), has certain powers to act where this deadline is not met (although typically if agreement is not reached by that date, the Pensions Regulator will encourage the parties to continue their discussions, rather than immediately intervene itself). We estimate that the funding deficit with respect to the AA UK Pension Scheme as at 31 March 2013, was approximately £200 million, which is slightly higher than our prior estimate of approximately £180 million, which was made at the time of the Refinancing. However, the funding deficit for the purposes of the finalised 2013 Valuation will depend on the assumptions we agree with the AA UK Pension Trustee, which are not yet final. We expect that our funding commitments will increase significantly in the context of the 2013 Valuation, which could have a material adverse effect on our business, financial condition and results of operations.

The AA UK Pension Trustee and the AA Ireland Pension Trustee currently have the benefit of shared super senior security over assets of the Acromas Group up to a value of £150 million and £10 million, respectively. On enforcement of the security and in certain other circumstances, the secured claim of each of the AA UK Pension Trustee and the AA Ireland Pension Trustee up to the relevant limit will rank in priority to the claims of Bond Co and the other Authorised Credit Providers against the Borrower.

In light of the increased deficit of the AA UK Pension Scheme in the context of the 2013 Valuation, we intend to implement the ABF, which will provide the AA UK Pension Scheme with an inflation-linked income stream over 25 years (with the first annual payment expected to be in the region of £12 million), which is intended to address the funding deficit that will be disclosed in the 2013 Valuation. The AA UK Pension Trustee's existing security will be released and replaced with first-ranking security (through the ABF structure) over our brands up to a value of £200 million. The inflation-linked income stream and new security will be provided through the AA UK Pension Trustee being granted an interest in a new Scottish limited partnership, which will hold a loan note issued by a company to which the AA Group's brands will be transferred ("**IP Co**"). The royalties payable by the AA Group to IP Co for the use of the brands will fund the loan note payments from IP Co to the partnership, and such payments will be secured by a first ranking charge over the AA Group's brands, up to a value of £200 million, with the Obligor Secured Creditors holding a second lien interest over the AA Group's brands through IP Co. Although the AA UK Pension Trustee's income stream (which is expected to commence at £12 million per annum) will only be finalised in connection with the deficit for the purposes of the 2013 Valuation being agreed, the maximum amount of security will be fixed at £200 million. An increased amount of security protection (£200 million rather than £150 million) has been agreed with the AA UK Pension Trustee on the basis that the security is over the AA Group's brands, rather than the assets of the AA Group more generally, and that income payments to the AA UK Pension Trustee under the ABF are intended to address the funding deficit expected to be disclosed at the 2013 Valuation over a 25 year term, which is much longer than the period over which funding deficits are typically sought to be addressed. A non-binding term sheet setting out the terms of the ABF was previously agreed with the AA UK Pension Trustee and appended to the otherwise binding AA UK Pension Agreement. The documents required to implement the ABF are currently being negotiated and we intend to implement the ABF in conjunction with the 2013 Valuation documents.

If the ABF is not agreed and implemented, (i) the AA UK Pension Trustee's first ranking super senior security over assets from the Obligors up to a value of £150 million will remain in place; and (ii) the AA UK Pension Trustee may require higher deficit payments to be paid to the AA UK Pension Scheme over a shorter period than a 25 year term, which could adversely impact our business, financial condition and results of operations.

If the ABF is implemented, the AA UK Pension Trustee, through its partnership interest, will have a first ranking claim against IP Co of £200 million in respect of our brands. If the loan note payments are not made to the Scottish limited partnership and the security is enforced, the AA UK Pension Trustee's indirect claim against IP Co for £200 million will rank ahead of other claims, including those of the Obligor Secured Creditors, and the Scottish limited partnership will have the right to enforce the £200 million first ranking security interest against IP Co at the instruction of the AA UK Pension Trustee in these circumstances. The AA Group's use of its brands, if the ABF is implemented, will be subject to a licence from IP Co. That licence may provide that it is terminable for material breach or upon enforcement of the first-ranking security.

Furthermore, there can be no assurance that the funding deficit with respect to the AA UK Pension Scheme will not increase in the future whether or not the ABF is implemented, which may result in materially higher payments to the AA UK Pension Scheme being required to address such increased deficit.

The assets of the AA UK Pension Scheme and the AA Ireland Pension Scheme are invested in various investment vehicles which are susceptible to market volatility, interest rate risk and other market risks, any of which could result in decreased asset value and a significant increase in our net pension obligations.

The assets of the AA UK Pension Scheme and the AA Ireland Pension Scheme are invested predominantly via externally managed funds and insurance companies. The AA UK Pension Trustee and the AA Ireland Pension Trustee, in consultation with us, prescribe the investment strategy in relation to the assets of the AA UK Pension Scheme, and thus we do not determine individual investment alternatives. The assets may be invested in different asset classes including equities, fixed-income securities, real estate and other investment vehicles. The values attributable to the externally invested pension

plan assets are subject to fluctuations in the capital markets that are beyond our influence. Unfavourable developments in the capital markets could result in a substantial coverage shortfall for these pension obligations, resulting in a significant increase in our net pension obligations. In addition, deterioration in our financial condition could lead to an increased funding commitment to the trustees, which could further exacerbate any financial difficulties we could face at such time. Any such increases in our net pension obligations could adversely affect our financial condition due to increased additional outflow of funds to finance the pension obligations. We are also exposed to risks associated with longevity, interest rate and inflation rate changes in connection with our pension commitments, as a decrease in interest rates, increase in longevity or in inflation could have an adverse effect on our contribution requirements in respect of the AA UK Pension Scheme.

In certain circumstances we may be required to fully fund the AA UK Pension Scheme on a "buy-out" basis, which could have a material adverse effect on our business, financial condition and results of operations.

In the event the AA UK Pension Scheme is wound up or certain insolvency events occur in relation to the sponsoring employer of the AA UK Pension Scheme, which is currently Automobile Association Developments Limited (the "**Employer**") it will be liable to pay a so-called "section 75 debt" into the AA UK Pension Scheme. The AA UK Pension Trustee can trigger a wind-up of the AA UK Pension Scheme if the Employer terminates its liability to contribute to the AA UK Pension Scheme or ceases to carry on its undertaking and a successor has not assumed the role of sponsoring employer, which is subject to AA UK Pension Trustee consent. The Pensions Regulator has powers to trigger a wind-up in relation to the AA UK Pension Scheme in certain circumstances. Insolvency events which trigger a section 75 debt include the appointment of an administrative receiver and the entry by a company into administration. Whereas the ongoing funding basis is agreed between the AA UK Pension Trustee and the Employer (subject to the Pensions Regulator's powers to intervene and determine such basis), the section 75 debt is calculated by reference to the deficit on a "buy-out" basis, broadly the cost of purchasing annuities and deferred annuities with an insurer. The deficit on a buy-out basis is often significantly in excess of the funding deficit, and the deficit of the AA UK Pension Scheme on a buy-out basis was £724 million as at 31 March 2010 (though this number will be volatile over time—for example, this was estimated to be in the region of £1.6 billion in preliminary calculations undertaken by the actuary in the context of the 2013 Valuation). The Borrower provides a guarantee under the AA UK Pension Agreement in relation to, broadly, the difference between the section 75 debt and the Trustee's security interest, effective on enforcement of the security, to replace the guarantee currently provided by a member of the Acromas Group. Accordingly, if a section 75 debt is triggered, it could have a material adverse effect on our business, financial condition and results of operations.

Where a section 75 debt is triggered as a result of an insolvency event, the debt is contingent on the pension scheme being transferred to the Pension Protection Fund (the "**PPF**"). Entry into the PPF is subject to certain conditions, including an assessment as to whether the pension scheme's assets are sufficient to provide benefits of at least the level of compensation which would be provided by the PPF and is determined during the course of a PPF assessment period (if so, the scheme will not transfer). The PPF will assume responsibility for an eligible scheme where the assets of the scheme are not sufficient to provide PPF level benefits, unless the relevant insolvency practitioner issues a "scheme rescue" notice (for example, because the relevant company is rescued and the business continues with the pension scheme in place or because another entity agrees to assume responsibility for the pension liabilities). Where a scheme rescue notice is issued, no section 75 debt in relation to the scheme will be payable as a result of the insolvency. In the absence of a scheme rescue notice, the section 75 debt would become payable and, as this is likely to be significant, this means a substantial unsecured claim would arise in relation to the Employer and the Borrower pursuant to the AA UK Pension Agreement.

A section 75 debt is an unsecured debt. However, the AA UK Pension Trustee has the benefit of a super senior security up to the value of £150 million, which will remain in place if the ABF is not implemented and which will rank ahead of the Obligor Secured Creditors. Alternatively, if the ABF is finally agreed and implemented, the existing £150 million first ranking super senior security over assets will be released and the ABF will provide first-ranking security from IP Co of up to £200 million, which will be enforceable by the Scottish limited partnership in certain circumstances, including in the event of a section 75 debt being triggered (where, as a result of insolvency, the debt becomes payable because there is no scheme rescue). In each case, the security secures obligations owed to the AA UK Pension Trustee in relation to the AA UK Pension Scheme, including in the event of a section 75 debt arising. Accordingly. if the security is enforced, the AA UK Pension Trustee's claim for £150 million (or the AA UK Pension Trustee's indirect claim through its partnership interest for £200 million against IP Co if the ABF is implemented) will rank ahead of other claims, including the Obligor Secured Creditors.

The Pensions Regulator in the United Kingdom has power in certain circumstances to issue contribution notices or financial support directions which, if issued, could result in us incurring significant liabilities.

Under the Pensions Act 2004, the Pensions Regulator may issue a contribution notice requiring contributions to be paid into the relevant scheme by an employer in a UK defined benefit pension scheme or any person who is "connected with" or is an "associate of" an employer in a UK defined benefit pension scheme. A contribution notice may be issued if the Pensions Regulator is of the opinion that (i) the relevant person has been a party to an act, or a deliberate failure to act, which had as its main purpose (or one of its main purposes) the avoidance of pension liabilities or (ii) the relevant person has been a party to an act, or a deliberate failure to act, which has a materially detrimental effect on a pension plan without sufficient mitigation having been provided. Directors of the participating employer are also potentially subject to the Pensions Regulator's power to issue a contribution notice.

If the Pensions Regulator considers that the employer participating in a UK defined benefit pension scheme is "insufficiently resourced" or a "service company," it may impose a financial support direction requiring any person associated or connected with that employer, to put in place financial support in relation to the relevant pension scheme. An employer is insufficiently resourced if, broadly, the employer has insufficient assets to meet 50% of the deficit on a buy-out basis and any person or persons who is or are "connected with" or an "associate of" the employer has (or together have) sufficient assets to meet the shortfall between the employer's assets and 50% of the deficit on a buy-out basis.

The terms "associate" and "connected person," which are taken from the Insolvency Act 1986, are widely defined and could cover our significant shareholders and others deemed to be shadow directors. Entities within the AA Group and the Saga Group are associated and connected with each other and the Acromas Group, which means that entities in the AA Group are associated and connected with the employers in the AA UK Pension Scheme and the defined benefit pension schemes operated by the Saga Group. Consequently, the AA Group could be responsible in certain circumstances for the pension liabilities of the Saga Group. The Saga Group operates three defined benefit pension schemes: (i) the Saga Pension Scheme (the "**Saga Pension Scheme**"), (ii) the Nestor Healthcare Group Retirement Benefits Scheme and (iii) the Healthcall Group Limited Pension Scheme. The Saga Pension Scheme is the largest scheme operated by the Saga Group and as at 31 January 2012, the Saga Pension Scheme had a funding deficit of approximately £37.3 million and assets of £146.0 million.

Entities in the AA Group may also be associated and connected with employers in other UK defined benefit pension schemes operated in groups in which our significant shareholders have a prescribed shareholding.

The Pensions Regulator may only issue contribution notices or financial support directions where it believes it is reasonable to do so. In relation to financial support directions, the Pensions Regulator determines reasonableness by having regard to a number of factors, a non-exhaustive list of which is set out in legislation (and includes the relationship which the person has or has had with the employer, the value of any benefits received directly or indirectly by that person from the employer, any connection or involvement which the person has or has had with the scheme and the financial circumstances of the person). To date, all reported instances of the exercise of these powers relate to groups of companies in some form of insolvency process or where the employer is insolvent.

Strengthening of the regulatory funding regime in the UK or Ireland could impose increased pension funding requirements.

Strengthening of the regulatory funding regime for pensions in the United Kingdom or Ireland (whether imposed by local law or European Union law and which, in the case of Ireland could include the introduction of statutory debts for the recovery of a shortfall in funding, equivalent to the concept of section 75 debts under UK law or the introduction of regulatory powers, equivalent to the UK regulator's powers to impose liability for underfunded defined benefit schemes on third parties) could increase requirements for cash funding of pensions, demanding more financial resources to meet governmentally mandated pension requirements. The realisation of any of the foregoing risks could require us to make significant additional payments to meet our pension commitments, which could have a material adverse effect on our business, financial condition and results of operations.

We are exposed to the risk that our liability for our post-retirement medical plan could materially increase which could have a material adverse effect on our business, financial condition and results of operations.

We operate an unfunded post-retirement medical scheme (the "**AAPMP**") to provide private healthcare cover to retired AA pensioners and their dependents. The scheme is unfunded and as of 31 January 2013 showed a liability of £47.5 million (before related deferred tax assets). This liability could materially increase depending on, among other factors, the longevity of scheme participants, material changes in claims behaviour and the rate of inflation in the costs of providing these healthcare benefits, which could have a material adverse effect on our business, financial condition and results of operations.

We may change the reporting standard for our accounts from UK GAAP to IFRS, which may adversely affect our reported results.

We prepare our financial statements on the basis of UK GAAP, which differs in certain significant respects from IFRS and US GAAP. While there is no requirement for us to do so as of the date of this Report, it is possible that we may in the future be required to, or elect to, prepare our financial statements in accordance with IFRS. Based on our preliminary analysis, we believe if we were to have to change the reporting standards for our financial statements from UK GAAP to IFRS:

- We would be required to present an analysis of our operating segments under IFRS 8 *Operating Segments*. Such presentation may differ from the presentation of our segmental information in accordance with SSAP 25, *Segmental Reporting* under UK GAAP;

- We would be required to adopt a different presentation, including the format of our primary statements and incorporate additional disclosures, in areas such as employee benefits and leases, into our financial statements

under IFRS as compared with UK GAAP;

- We would not amortise our goodwill under IFRS. Instead, goodwill would be stated at cost less impairment and reviewed annually for impairment. Under UK GAAP, our goodwill is being amortised over 20 years;

- We would be required to account for taxation on a temporary difference basis. Under UK GAAP, taxation is accounted for on timing differences. More deferred taxation is likely to be recognised under IFRS;

- We would measure all derivatives at fair value through profit and loss under IFRS. Under UK GAAP, we account for interest rate swaps by accruing the net interest payable; and

- There are some differences between defined benefit accounting under IFRS and UK GAAP which affect the defined benefit cost recognised in profit and loss and may affect the (net of taxation) value of the defined pension liability recognised in the balance sheet. Under IFRS, the defined benefit obligation would be shown in the balance sheet gross of deferred taxation. Under UK GAAP, the defined benefit obligation is shown net of deferred taxation. IFRS requires that the defined benefit pension asset/liability is recognised in either the individual financial statements of the sponsoring employer or allocated across all participating subsidiaries depending on whether there is a contractual agreement or stated policy for charging to individual group entities the net defined benefit cost for the plan as a whole. Under UK GAAP, the defined benefit pension asset/ liability does not need to be charged to any individual group company if they cannot identify their share of the underlying assets and liabilities.

In addition, the preparation of our financial statements may require a more detailed analysis and we may be required to reclassify certain cash flow items. While we have conducted some preliminary analysis of how any change from our current financial reporting system to IFRS would affect our reported results, including the effect on the AA UK Pension Scheme, it is not possible to quantify the full impact of the proposed change and such impact could only be properly assessed if and when a change to IFRS were made. There may be substantial differences in our results of operations, cash flows and financial condition in the event that we prepare our financial statements in accordance with IFRS in the future, and there can be no assurance that any change to IFRS would not adversely affect our reported results.

We will be required to change to either FRS 102 or EU-adopted IFRS for accounting periods beginning on or after 1 January 2015, which may adversely affect our reported results.

In November 2012 and March 2013 the UK Financial Reporting Council (FRC) issued new accounting standards which will replace extant UK GAAP for accounting periods beginning on or after 1 January 2015. Financial Reporting Standard 102 (FRS 102) is the "new" UK GAAP which can be applied in both consolidated and individual financial statements. For accounting periods beginning on or after 1 January 2015, entities currently preparing consolidated financial statements under UK GAAP must change to either FRS 102 or EU-adopted IFRS.

We have performed a preliminary analysis and have identified the following key differences of FRS 102 compared to extant UK GAAP:

- Goodwill must have a finite useful life and is amortised over that life. If the useful life of goodwill cannot be reliably estimated, the life cannot exceed five years.

- Taxation is recognised on a timing differences plus approach which is similar, but not identical, to the temporary differences approach under IFRS.

- Derivatives must be measured at fair value through profit and loss.

- Accounting for defined benefit pension schemes is similar to IFRS. The defined benefit asset/liability must be presented gross of deferred taxation and, in individual financial statements, the defined benefit pension asset/ liability is recognised in either the financial statements of the sponsoring employer or allocated across all participating subsidiaries depending on whether there is a contractual agreement or stated policy for charging to individual group entities the net defined benefit cost for the plan as a whole.

The differences described above are not intended to be a comprehensive list of all such differences specifically related to us or the industries in which we operate. There may be substantial differences in our results of operations, cash flows and financial condition in the event that we prepare our financial statements in accordance with FRS 102 in the future, and there can be no assurance that any change would not adversely affect our reported results.

Our substantial leverage could materially and adversely affect our business, financial condition and results of operations and prevent us from servicing our payment obligations under our indebtedness.

We will continue to be highly leveraged and have significant debt service obligations. As of 31 July 2013, after giving *pro forma* effect to the issuance of the Additional Class A Notes, the Company's total outstanding indebtedness would have been £3,414.4 million. We expect that our substantial leverage will continue for the foreseeable future."

We may also be able to incur substantial indebtedness in the future. The degree to which we will continue to be

leveraged, as well as any further increase in our borrowings, could have important consequences for our business and investors, including:

- making it more difficult for us to satisfy our obligations;
- increasing our vulnerability to, and reducing our flexibility to respond to, general adverse economic and industry conditions, including rises in interest rates;
- restricting our ability to make strategic acquisitions or pursue other business opportunities;
- together with the financial and other restrictive covenants under our indebtedness, limiting our ability to obtain additional financing, dispose of assets or pay cash dividends other than as permitted by the terms of our indebtedness;
- requiring us to dedicate a substantial portion of our cash flow from operations to service our indebtedness, thereby reducing the availability of such cash flow to fund working capital, capital expenditure, other general corporate requirements and dividend payments;
- requiring us to sell or otherwise dispose of assets used in our business in order to fund our substantial debt service obligations;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- placing us at a competitive disadvantage compared to our competitors that have less debt; and
- increasing our cost of borrowing.

Any of these or other consequences or events could have a material adverse effect on our ability to satisfy our significant debt obligations. Any failure to make payments on our indebtedness when due could give rise to an event of default under the applicable debt instruments. In such circumstances, the relevant trustee, may declare all amounts outstanding under the applicable debt instruments to be immediately due and payable and initiate enforcement proceedings against the collateral we have provided to secure our obligations under such debt instruments, all or any of which actions could have a material adverse effect on our business, financial condition and results of operations.

We will require a significant amount of cash to meet our obligations under our indebtedness and sustain our business operations, and our ability to do so will depend on many factors beyond our control.

Our ability to meet our obligations under our indebtedness, including making principal, interest and other payments when due under the Senior Term Facility, the Working Capital Facility, the Class A IBLA, the Class B IBLA, the Topco Payment Undertaking, the Class A Notes and the Class B Notes, as well as our ability to fund our ongoing business operations, will depend upon our future operating performance and our ability to generate cash, which, in turn, will be affected to some extent by general economic conditions and by financial, competitive, legislative, regulatory and other factors, including those factors discussed in these "*Risk Factors*" and elsewhere in this Report, many of which are beyond our control.

The future performance of our business and results of operations may not be similar to our historic performance or results of operations described in this Report. Accordingly, we cannot provide any assurance that our business will generate sufficient cash flows from operations, that currently anticipated cost savings, revenue growth and operating improvements will be realised or that future sources of debt or equity financing will be available on favourable terms, or at all, in an amount sufficient to enable us to service our indebtedness or to fund our other liquidity needs. If, at the maturity of any of our indebtedness, we do not have sufficient cash flows from operations and other capital resources to pay our debt obligations, as the case may be, or if we are otherwise unable to fund our other ongoing liquidity needs, we may be required to undertake alternative financing plans, such as refinancing or restructuring our debt, selling assets, reducing or delaying capital investments or raising additional debt or equity financing in amounts that could be substantial or on unfavourable terms.

Our access to debt, equity and other financing as a source of funding for our operations and for refinancing maturing debt will also be subject to many factors, many of which are beyond our control. The type, timing and terms of any future financing will depend on our cash needs and the then prevailing conditions in the financial markets, including in the corporate bond, term loan and equity markets. We cannot assure you that these conditions will be favourable at the time any refinancing is required to be undertaken or that we will be able to complete any such refinancing in a timely manner or on favourable terms, if at all. For example, interest rate fluctuations, an economic downturn, changes in the UK regulatory environment or other industry developments which weaken the strength of our competitive position or prospects could increase our cost of borrowing or restrict our ability to obtain debt, equity and other financing. The creditworthiness of many financial institutions may be closely interrelated as a result of credit, derivative, trading, clearing or other relationships among the institutions. As a result, concerns about, or a default or threatened defaults by, one or more financial institutions could also lead to significant

market-wide liquidity and credit problems, including losses or defaults by other institutions. This may adversely affect the financial institutions, such as banks and insurance providers, with which we interact on a regular basis, as well as cause disruptions in the capital or credit markets (similar to the global credit crisis that began in the second half of 2008), and therefore could adversely affect our ability to raise needed funds or access liquidity.

In particular, we intend to refinance the Senior Term Facility through future issuances of Class A Notes under the Programme or otherwise in the capital markets, or by way of a new Class A Authorised Facility, given the financial maintenance covenants and periodic margin step-ups contained in the Senior Term Facility. Our interest expense will increase if, when we refinance the Senior Term Facility, interest rates have increased above their currently low levels. There can be no assurance that we will be able to offset such increased costs by increasing our Trading EBITDA as we implement our business strategies or otherwise.

If we are unable to refinance all or a portion of our indebtedness or obtain such refinancing on terms which are acceptable to us, we may be forced to sell assets. If assets are sold, the timing of the sales and the amount of proceeds that may be realised from those sales cannot be guaranteed and the terms of our indebtedness will limit our ability to pursue these and other measures.

Our inability to generate sufficient cash flows to satisfy our debt obligations or to refinance our indebtedness on acceptable terms, or at all, would materially and adversely affect our business, financial condition and results of operations, as well as our ability to pay the principal and interest on our indebtedness. Any failure to refinance our indebtedness on or prior to the applicable maturity date, may result in us defaulting on such indebtedness.

Changes in taxation laws may negatively impact us and the decisions of current or potential customers of our insurance products.

Changes in corporate and other tax rules could have both a prospective and retrospective impact on our business, financial condition and results of operations. In general, changes to, or in the interpretation of, existing tax laws, or amendments to existing tax rates (corporate or personal), or the introduction of new tax legislation may adversely affect us, either directly or as a result of changes in the insurance purchasing decisions of customers. Changes to legislation that specifically governs the taxation of insurance companies might adversely affect our business, financial condition and results of operations. While changes in taxation laws would affect the insurance sector as a whole, such changes may be more detrimental to particular operators than others. The relative impact on us will depend on the areas impacted by the changes and other relevant circumstances at the time of the change.

We may be liable for certain secondary and joint and several tax liabilities, which could have a material adverse effect on our business, financial condition and results of operations.

Where a company fails to discharge certain tax liabilities due and payable by it within a specified time period, UK tax law imposes, in certain circumstances (including where that company has been sold so that it becomes controlled by another person), secondary liability for those overdue taxes on other companies that are or have been members of the same group of companies, or are or have been under common control, for tax purposes with the company that has not discharged its tax liabilities.

If any secondary tax liabilities do arise in the Company and those secondary tax liabilities are not discharged by any other person, and are of significant amounts, the financial condition of the Company could be adversely affected.

The Company is, a member of a VAT Group of which Saga Group Limited is the representative member. As a general matter, where companies are treated as members of a VAT Group, any supply of goods or services made by or to any member of the group (other than any such supply which is made by or to another member of the group) is treated as made by or to the representative member of that group. Saga Group Limited (in its capacity as the representative member of the VAT Group) is, therefore, the person required to account to HM Revenue & Customs ("**HMRC**") for any VAT chargeable on any supply made by or to any members of the VAT Group (to or by any person other than another member of the VAT Group).

Nevertheless, the members of a VAT Group are jointly and severally liable for any VAT due from the representative member of the group and remain so liable (in respect of liabilities arising during their period of membership) after ceasing to be members of that VAT Group. Consequently, if payments in respect of VAT liabilities are not made and are of significant amounts, this could adversely affect the Company's ability to make payments of interest and principal under its existing financing arrangements.

If certain Saga entities fail to comply with shared tax payment arrangements, we could face interest and penalties, which could adversely affect our business.

Saga Services Limited pays sums on account of corporation tax to HMRC on behalf of various companies, including the Company, pursuant to a group payment arrangement. If Saga Services Limited does not discharge its liability to pay sums on account of corporation tax to HMRC on behalf of the Company or does not pay the Company amounts

equal to any credit, relief or repayment of any corporation tax that it receives from HMRC on behalf of the Company, the Company could be adversely affected, including being subject to interest and penalties for late tax payments.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following information should be read in conjunction with the consolidated financial statements and the notes thereto, which can be found on the Company's website. A summary of the critical accounting estimates that have been applied to the Company's consolidated financial statements is set forth below under the heading "—Critical Accounting Policies." You should also review the information in the section "Presentation of Financial and Other Information." This discussion also includes forward-looking statements which, although based on assumptions that we consider reasonable, are subject to risks and uncertainties which could cause actual events or conditions to differ materially from those expressed or implied by the forward-looking statements. For a discussion of risks and uncertainties facing us as a result of various factors, see "Forward-Looking Statements" and "Risk Factors."

Some of the measures used in this Report are not measurements of financial performance under UK GAAP, and should not be considered as an alternative to cash flow from operating activities as a measure of liquidity or an alternative to gross profit or operating profit for the period as indicators of our operating performance or any other measure of performance derived in accordance with UK GAAP.

This Report presents the audited consolidated financial information of the Company and its subsidiaries as of and for the years ended 31 January 2011, 2012 and 2013 and the unaudited interim consolidated financial statements of the Company as of and for the six months ended 31 July 2012 and 2013, as prepared in accordance with UK GAAP. On 26 June 2013, we transferred the entire share capital of ARCL from TAAL to the Company. In addition, on 24 October 2013, Acromas Bid Co Limited transferred all the share capital and assets of AAG to the Company. Under the terms of our financing arrangements, we may prepare and present future consolidated financial statements for an AA Group entity other than the Company. As a result of the transfer described above, the results of operations of ARCL will not be reflected in any of the Company's subsidiaries' results of operations or reported on going forward. Furthermore, AAG has not historically been, and will not in the future, be reflected in any of the Companies' subsidiaries' results of operations. Historically, ARCL made up the entirety of our insurance underwriting segment in our results of operations. We have also historically made payments to the group treasury function within the Acromas Group to cover various costs and expenses, including Acromas' obligations under the Existing Senior Facility Agreement and Former Mezzanine Facility Agreement. Following the Separation, which took place on 2 July 2013, we no longer remit cash to the Acromas Group treasury and we retain this cash within the Topco Restricted Group. In addition, we have also historically made payments to the group treasury function within the Acromas Group to cover various costs and expenses, including Acromas' obligations under the Existing Senior Facility Agreement and the Former Mezzanine Facility Agreement. In addition, we may incur increased costs from operating as a stand-alone business and other one-off and exceptional costs in connection with the Separation. As a result of the foregoing, our future consolidated financial statements and the future consolidated financial statements of any of the Company's subsidiaries' will not be directly comparable to our consolidated financial statements for any prior periods, including those contained in this Report. See "Summary—Recent Developments—The Separation."

The consolidated financial statements of the Company have been presented in accordance with UK GAAP, which differs in certain significant respects from IFRS and US GAAP. We have not prepared consolidated financial statements in accordance with, nor have we reconciled our consolidated financial statements to, IFRS or US GAAP, and, accordingly, we cannot offer any assurance that the differences between UK GAAP and IFRS and US GAAP would not be material. Therefore, we have not identified or quantified the differences that may impact our reported profits, financial position or cash flows in the event our consolidated financial statements were to be reported under IFRS or US GAAP, and the effect of such differences may be material.

Except as the context otherwise indicates, when discussing historical results of operations in this "Management's Discussion and Analysis of Financial Condition and Results of Operations," "the Company," "we," "our," the "AA" and other similar terms are generally used to refer to the business of AA Limited and its subsidiaries.

Overview

We are the largest roadside assistance provider in the United Kingdom, representing over 40% of the market and responding to an average of approximately 10,000 breakdowns every day. With over 100 years of operating history, we have established ourselves as one of the most widely recognised and trusted brands in the United Kingdom. We have successfully leveraged our brand and pursued an affinity-based expansion model into complementary products and services to also become a leading provider of insurance broking services, home emergency assistance services, financial services intermediation and driving services, each of which is offered under the AA brand. As of 31 January 2013, approximately 16 million customers, representing approximately 51% of UK households, subscribed to at least one AA product.

In the twelve months ended 31 July 2013, we generated Trading turnover of £975.2 million and Trading EBITDA (defined as profit before taxation, net interest payable and similar charges, goodwill amortisation, exceptional items, pension curtailment gain, items not allocated to a segment and depreciation) of £408.5 million. Between 31 January 2009 and 31 July 2013, our Trading turnover grew at a CAGR of 2.0%. Our business generates attractive margins, with a Trading EBITDA margin of 41.9% for the twelve months ended 31 July 2013. We have high cash conversion ratios (defined as available cash inflow from operating activities divided by Trading EBITDA) of 94.3% and 101.7% in the year ended 31 January 2013 and the twelve months ended 31 July 2013, respectively, as we have favourable working capital dynamics due to the fact that the

majority of our personal members pay for services in advance and the majority of our suppliers are paid after the provision of goods and services. In addition, we estimate that approximately 84% of our turnover and approximately 92% of our profit contribution (turnover less marketing and service and delivery costs) for the year ended 31 January 2013 was derived from repeat business (defined as income from renewing personal members and insurance customers, multi-year B2B roadside assistance and driving services contracts and driving school franchisees that contribute to turnover), which contributes to the relative predictability of our future Trading EBITDA and cash flow.

Recent Developments

The Separation

In 2007, the AA joined Saga under common ownership and has since operated as a subsidiary of the parent company, Acromas Holdings Limited, which is owned by funds controlled by Charterhouse (36%), funds controlled by CVC (20%), funds controlled by Permira (20%), employees (20%) and others (4%). However, the AA has largely maintained independent business operations within each of its segments, with the exception of certain shared services and trading relationships among the AA Group, the Acromas Group and the Saga Group, including with respect to information technology, legal services, financial services and treasury administration.

On 2 July 2013, the operations of the AA Group were separated from the Acromas Group and the Saga Group. However, the AA continues to be owned by Acromas and have certain shared responsibilities and trading relationships with the Acromas Group and the Saga Group. To formalise the Separation, the AA Group entered into an inter-group services agreement with the Acromas Group that governs the relationship between certain members of the AA Group, the Saga Group and the Acromas Group and sets forth the terms and conditions on which certain services are provided between such members.

Taxes

Following the Separation, members of the AA Group are able to surrender available tax losses to and accept surrenders of available tax losses from members of the Acromas Group and the Saga Group, and to enter into other tax transactions with members of the Acromas Group and the Saga Group. In the case of those members of the AA Group that form part of the Topco Restricted Group, such transactions are regulated under the Tax Deed of Covenant. The surrender of available tax losses from the Topco Restricted Group companies to the Acromas Group or the Saga Group companies or vice versa must be for consideration equal to the tax value of the losses surrendered and any other tax transactions entered into between the Topco Restricted Group companies and Acromas Group and Saga Group companies may only be entered into if any such tax transaction leaves each member of the Topco Restricted Group, taken together, and each member of the Acromas Group and the Saga Group, taken together, in no worse net economic position than they would have been in had such tax transaction not taken place.

The Tax Deed of Covenant places certain restrictions on the surrender of tax losses between members of the Acromas Group and the Saga Group and members of the Topco Restricted Group. A member of the Topco Restricted Group may accept a surrender of tax losses from a member of the Acromas Group or the Saga Group only after (i) any member of the Topco Restricted Group which has tax losses for the relevant accounting period has agreed to surrender all such losses exclusively to other Topco Restricted Group members and (ii) any Acromas Group or Saga Group member which has tax losses for the relevant accounting period which relate to an arm’s length loan granted by a bank or other financial institution has agreed to surrender all such losses exclusively to other Topco Restricted Group members.

In addition, there is a group payment arrangement whereby Saga Services Limited pays sums on account of corporation tax to HMRC on behalf of group companies, including members of the AA Group, and the members of the AA Group are members of a VAT Group that also contains members of the Acromas Group and the Saga Group, the representative member of which is Saga Group Limited. Each of these arrangements necessitates members of the AA Group making payments on account of their corporation tax liability and/or net VAT liability to Saga Services Limited and Saga Group Limited, respectively. The AA Group is therefore in the same corporation tax and VAT cash flow position as if it were a stand-alone business, albeit that instead of making direct payments to HMRC, it puts Saga Services Limited and Saga Group Limited in funds for their payments to HMRC, receiving funds from those companies and making payments for group relief. In relation to those members of the AA Group that form part of the Topco Restricted Group, such payments are regulated under the Tax Deed of Covenant.

AA Pension Schemes

The AA Group operates two defined benefit pension schemes: (i) the AA UK Pension Scheme, which we operate for AA employees in the United Kingdom, including the Channel Islands, and (ii) the AA Ireland Pension Scheme, which we operate for AA employees in Ireland. The AA UK Pension Trustee and the AA Ireland Pension Trustee were granted shared super senior security over certain assets by certain subsidiaries of Topco and the Borrower on 2 July 2013. The terms of the £150 million security for the AA UK Pension Trustee and the £10 million security for the AA Ireland Pension Trustee and certain other agreements with the trustees regarding other pensions issues, such as scheme funding and guarantees, are set out in the AA UK Pension Agreement and the AA Ireland Pension Deed, respectively.

The AA UK Pension Scheme is the largest scheme operated by the AA Group and according to the last completed actuarial valuation, which was carried out as at 31 March 2010, the AA UK Pension Scheme had a funding deficit of approximately £87 million and assets of approximately £1,222 million. The 2013 Valuation is currently being conducted for the AA UK Pension Scheme. We estimate that the funding deficit with respect to the AA UK Pension Scheme as at 31 March 2013, was approximately £200 million, which is slightly higher than our prior estimate of approximately £180 million, which was made at the time of the Refinancing. However, the funding deficit for the purposes of the finalised 2013 Valuation will depend on the assumptions we agree with the AA UK Pension Trustee, which are not yet final. In light of the increased deficit in the context of the 2013 Valuation, we intend to implement the ABF, which will provide the AA UK Pension Scheme with an inflation-linked income stream over 25 years (with the first annual payment expected to be in the region of £12 million), which is intended to address the funding deficit that will be disclosed in the 2013 Valuation. Typically, funding deficits are addressed over a much shorter period than 25 years and, in order to secure the AA UK Pension Trustee's agreement to this longer 25-year term under the ABF, the AA UK Pension Trustee's existing security will be released and replaced with first-ranking security (through the ABF structure) over our brands up to a value of £200 million. A non-binding term sheet setting out the terms of the ABF previously was agreed with the AA UK Pension Trustee and appended to the otherwise binding AA UK Pension Agreement. The documents required to implement the ABF are currently being negotiated and we intend to implement the ABF in conjunction with the 2013 Valuation documents. If the ABF is not implemented, then the AA UK Pension Trustee's security will remain at its present value of £150 million. There can be no assurance that the funding deficit with respect to the AA UK Pension Scheme will not increase in the future, whether or not the ABF is implemented, which may result in materially higher payments to the AA UK Pension Scheme being required to address such increased deficit.

The AA Ireland Pension Trustee's security will remain in place irrespective of whether the ABF is implemented in respect of the AA UK Pension Scheme.

As a result of a recent law change, certain employers in the United Kingdom are now required to automatically enrol eligible employees (who are not already members of a qualifying pension scheme) into a qualifying pension scheme with a minimum level of employer contributions. The AA Group became subject to these obligations with effect from 1 April 2013. The AA Group has automatically enrolled 2,656 eligible employees who were not already members of a qualifying pension scheme (such as the AA UK Pension Scheme) into a separate group personal pension plan operated by a third party pension provider, of which 293 opted out, resulting in an additional pension cost of approximately £0.8 million per annum.

The Migration

One of our subsidiaries, TAAL, is incorporated in Jersey and is regulated by the JFSC as a registered person under the Financial Services (Jersey) Law 1998 to carry on general insurance mediation business, as more fully described under "*Regulatory Overview—TAAL Jersey Regulatory Overview*." Consequently, TAAL is subject to certain requirements imposed by Jersey law, which, among other things, requires prior approval from the JFSC to transfer direct and indirect ownership in TAAL or appoint a liquidator or an administrator, or to perfect any assignment of title to or enforce any security interest granted in respect of the share capital of TAAL or any parent company of TAAL. Accordingly, in order to facilitate enforcement of the Obligor Security in the future, including the appointment of an administrative receiver, TAAL and AADL, an entity incorporated in England, entered into the Business Transfer Deed in connection with the Refinancing, pursuant to which TAAL agreed to sell, and AADL agreed to buy, the business of TAAL as a going concern and the legal and beneficial title to substantially all the income producing assets of TAAL. In connection with the sale, AADL assumed all the liabilities of TAAL, as well as agreed to pay the book value of the transferred assets.

Substantially all the income producing assets of TAAL are being transferred in accordance with the terms set out in the Business Transfer Deed. The transfers commenced in September and all employees and pension arrangements have been transferred and the process of transferring property interests, customers and suppliers is in progress. No impact on the Group's operations or trading performance is expected to arise from this transfer. AADL has been substituted for TAAL as the sponsoring employer under the AA UK Pension Scheme. The transfer of supplier contracts, finance leases and leases of real estate, which are subject to the receipt of applicable third-party consents, are also in progress. Following the transfer of employees to AADL, TAAL and AADL entered into a transitional services agreement to ensure TAAL is able to discharge its duties in respect of assets that have yet to be transferred or which do not form part of the assets being sold to the same standard that it has applied prior to the date of the Business Transfer Deed.

Trading Update

We expect that our Trading EBITDA for the nine months ended 31 October 2013 will be higher than our Trading EBITDA for the nine months ended 31 October 2012.

The above information is not intended to be a comprehensive statement of our financial or operational results for the nine months ended 31 October 2013. The preliminary estimates above were prepared based on a number of assumptions and estimates that are subject to inherent uncertainties and subject to change. Accordingly, our actual results for the nine months ended 31 October 2013 may vary from our preliminary estimates above, and such variations could be material. See "*Forward-Looking Statements*" and "*Risk Factors*" for a more complete discussion of certain of the factors that could affect our future performance and results of operation.

Key Factors Affecting Our Results of Operations

Set forth below is a description of certain of the key factors that have historically affected our business and which may impact our business in the future.

Member Loyalty and Retention Rates

Our results are impacted by the levels at which we are able to successfully retain customers across our various business segments. We depend on maintaining a high degree of customer loyalty in order to help sustain our high customer retention rates. High retention rate levels, in turn, provide us with insight into future profit and cash flow performance and, when combined with our multi-year B2B contracts, are a source of stability and strong profit margins. An estimated 84% of our turnover and 92% of our profit contribution (which we define as turnover less marketing and service delivery costs) for the year ended 31 January 2013 was derived from repeat business. As the cost to retain a personal member is typically lower than the cost of attracting a new personal member, our operations depend on our managing and monitoring factors that affect customer retention rates, including the price of our products and services and the level of benefits offered. We believe that our ability to sustain high levels of customer service and the integrity of the AA brand is fundamental to our ability to control customer churn.

Pricing and Competition

The level of our turnover depends on our ability to correctly price our products and services. We aim to manage the pricing of our products and services for both new and existing customers across our various business segments in order to provide customers with quality products and services at an attractive price, while seeking to maximise the long-term value of our customer base. We must also price our products correctly in light of the specific competitive environment.

Within our roadside assistance segment, we offer a range of products and services at different price points for new and existing personal members and B2B customers. As price competition in the market for roadside assistance services has historically been fairly limited relative to the broader insurance market, we have had a greater degree of control with respect to our pricing policies and product packages as compared to the insurance market, where the level of price competition is high and PCWs have intensified price pressure. Within the roadside services segment, we set our personal member renewal pricing policies and services levels based on information obtained from our analysis of our extensive customer database and by our customer services teams. We offer discounts to attract new personal members and we offer a combination of discounts and enhanced service packages to existing personal members in order to foster long-term memberships. Our ability to effectively implement personal member discounts and enhanced service packages at the time of renewal, in particular, while implementing sustainable long term pricing and price increases, where appropriate, is an important factor in limiting customer churn which impacts our results of operations. The level and duration of our customer retention programs may increase our costs. Although pricing within the B2B market tends to be more competitive than in the B2C market (as contracts are regularly tendered by B2B partners), the scale of our roadside assistance segment tends to limit loss of B2B partners to competitors.

Pricing within our insurance segment is principally determined by the members of our insurance underwriting panel. We then add our brokerage commission, as appropriate, to the premiums provided by underwriters. The levels of brokerage commissions and policy volumes we are able to achieve will depend on the premiums that we receive from underwriters on our panel. Underwriter premiums will vary for a number of reasons, including underwriters' experience in managing past claims or prospective claim estimates, changes in their underwriting strategy and policies and targeted underwriting returns. In terms of new business activities, our sales conversion depends on the relative competitiveness of our underwriting premiums compared to other participants in the motor and home insurance market. This is particularly the case for sales volumes generated via PCWs. Our income from motor and home insurance customers is also dependent on the level of commission we are able to sustain from our renewing customers. If underwriters' prices increase year-on-year, customers are more likely to cancel their existing insurance policies, seek insurance from other providers and consequently, we may experience lower customer retention rates and brokerage commissions. Conversely, if underwriters' prices decrease year-on-year, we may experience higher customer retention rates and higher levels of income from brokerage commissions.

We have the ability to influence insurance pricing by providing members of our insurance underwriting panel with certain risk-related information, including proprietary data we collect in connection with our roadside assistance segment and external data such as credit scores. This information in turn allows motor insurers to more accurately tailor policies to address individual risks. Over the long-term, the provision of proprietary data to our insurance underwriting panel may offer us a competitive advantage with regards to certain customers. However, the provision of proprietary information to panel members can also result in reductions in commissions, personal injury referral fees and finance income from the motor insurance customers if our insurance underwriting panel declines to offer competitive rates to individuals that typically attract higher premiums.

Attracting New Customers, Cross-selling and Up-selling

Our business depends on our ability to attract new customers, as well as to cross-sell and up-sell our range of products and services among our existing customer base. We rely on our customer database, online presence and call centres to attract new customers through a range of marketing activities. Changes in customer responsiveness to our marketing activities, or in our ability to convert customer leads into actual sales, impact the size of our customer base and our financial results.

We rely on cross-selling insurance services products to our roadside assistance personal members and similarly on cross-selling roadside assistance memberships to our insurance customers. In addition, we cross-sell products within our insurance services segment (for example, the sale of home insurance to a motor insurance customer) and up-sell products to our existing customers (for example, the sale of additional levels of roadside assistance cover to personal members). Cross-selling and up-selling has been the key factor supporting growth in the home emergency portion of our insurance services segment. Our ability to successfully cross-sell and up-sell supports cost-effective growth in income per customer and per policy and impacts our results of operations.

Roadside Assistance Breakdown Volume

One of our key factors affecting results of operations in our roadside assistance segment is the volume of breakdown calls that we service. Although call volume is relatively stable over time and we have developed sophisticated planning tools to match our resources to expected workload volumes, demand for our services may fluctuate from period to period based on certain factors, including the following:

Weather

We experience increased demand for roadside assistance during periods of adverse weather conditions. While both our personal member and B2B customer pricing models assume a reasonable number of bad weather days, extended periods of adverse weather conditions or extreme heat, cold or flooding have a negative impact on our operating margins as, in such circumstances, our operating costs increase. The increased costs are, however, offset in part by the associated increased revenue from B2B partners who pay for our roadside assistance services based on usage by B2B customers. We estimate that approximately 80% of our B2B partner revenue is derived from pay-for-use contracts. Breakdowns resulting from adverse weather conditions in geographically remote areas may be incrementally more expensive to service, but are less likely to occur in high volumes. In circumstances where we are required to rely on a contracted third-party garage network during peaks in demand, we incur additional incremental costs due to charges paid to these garages, which are partially offset by a corresponding increase in income from pay-for-use B2B customers. The impact of adverse weather conditions on our results of operation is mitigated by the economies of scale we have achieved across our roadside assistance segment which help to make our incremental cost per breakdown relatively predictable, despite the occasional weather-related increase in our cost base.

Customer Usage and Change in Product Mix

Changes in driving preferences may affect our results of operations. In 2011, our roadside business experienced lower call volume during periods where fuel prices remained relatively high, which we believe was the result of personal members and B2B customers driving less frequently in order to use less fuel. In contrast, in periods of economic austerity, drivers may retain older vehicles for longer periods of time, potentially leading to increased breakdown call volumes since older vehicles tend to break down more frequently than new vehicles. We may also experience shifts in revenues depending on the services offered by our B2B partners. For example, our call volumes from B2B customers increased when Lloyds Banking Group introduced our “Homestart” service to their customers in 2011.

Cost Structure

Cost of sales

Operational costs are predominately attributable to “front line” costs (such as staff costs, vehicle, fuel, tooling and equipment costs), third-party garaging and parts costs. The majority of our operational costs are either variable or semi-variable in nature, given that they are largely based on the size of the patrol force required to service breakdown volumes. We can adjust resources to respond to increases in demand in the short-term through the use of third-party garages and in the medium-term through increases or decreases in patrol headcount. Fuel costs account for approximately 2.0% of our turnover. We hedge fuel costs annually in advance of each upcoming financial year based on our 12-month usage forecast to mitigate the impact of diesel price volatility.

In addition, we incur staff and other costs in connection with the operation of service delivery call centres that answer roadside assistance calls and dispatch our patrols. Cost of sales also includes the direct costs of delivering our range of other services to personal members and B2B customers, including our automotive glass business within our roadside assistance segment and franchisee and training delivery costs and publishing costs within our driving services segment.

Administrative and marketing expenses

We incur costs through the operation of our sales and customer service call centres for both our roadside assistance and insurance segments. Our primary costs are staff costs, with a proportion of staff costs relating to incentive payments made for achieving customer service benchmarks and sales and retention targets in compliance with regulatory requirements. The bulk of our other non-operational costs relate to staff costs incurred in connection with the management of our business segments or the provision of centralised functions, including technology systems, human resources, head office and other support functions.

Headcount costs also include ongoing pension contributions, the levels of which are set as part of a triennial scheme valuation process. In the year ended 31 January 2013, pension contributions amounted to £10.4 million, of which the Company contributed 9.2% of pensionable salary across all members, but there can be no assurances that future contribution rates will remain at this rate. The 2013 Valuation is currently underway and, in accordance with applicable pensions legislation, will be required to be agreed between the AA UK Pension Trustee and the AA Group by 30 June 2014 (i.e., within 15 months of the effective date of the 2013 Valuation). In anticipation that the 2013 Valuation will result in an increased funding deficit compared to the valuation in 2010, we intend to enter into the ABF with the AA UK Pension Trustee whereby the funding deficit ultimately disclosed in the 2013 Valuation will be addressed, in whole or in part, with an income stream over a 25 year term.

Our marketing costs are relatively consistent year-to-year, and we use a variety of marketing techniques, including Internet search engine advertising, direct mailings, press advertising campaigns and payments to PCWs. However, in 2010 and 2011, we employed a television campaign designed to promote our then newly launched home emergency service offering. Marketing costs per customer acquired are carefully monitored by our sales channel to help ensure that appropriate returns are achieved, as compared against our internal measures of customer value.

The Separation

We do not anticipate that the Separation will have a significant effect on our overall results of operations and we do not expect our cost base to increase as a result of the Separation.

Following the Separation, which took place on 2 July 2013, we no longer remit cash to the Acromas Group treasury and we retain this cash within the Topco Restricted Group. In addition, the historical consolidated financial statements of the Company include the results of operations for ARCL, the entire share capital of which was transferred from TAAL to the Company on 26 June 2013. Under the terms of our financing arrangements, we may prepare and present future consolidated financial statements for an AA Group entity other than the Company. As a result of the transfer described above, the results of operations of ARCL will not be reflected in any of the Company's subsidiaries' results of operations or reported on going forward. Historically, ARCL made up the entirety of our insurance underwriting segment in our results of operations.

Saga Services Limited pays sums on account of corporation tax to HMRC on behalf of various group companies, including members of the AA Group, pursuant to a group payment arrangement and Saga Group Limited pays sums on account of VAT to HMRC as the representative member of a VAT Group that includes members of the AA Group, the Acromas Group and the Saga Group. Each of these arrangements necessitates members of the AA Group making payments on account of their corporation tax liability and/or net VAT liability to Saga Services Limited and Saga Group Limited respectively. In relation to those members of the AA Group that form part of the Topco Restricted Group, such payments are regulated under the Tax Deed of Covenant.

Members of the AA Group are able to surrender available tax losses to and accept surrenders of available tax losses from members of the Acromas Group and the Saga Group, and to enter into other tax transactions with members of the Acromas Group and the Saga Group. In the case of those members of the AA Group that form part of the Topco Restricted Group, such transactions are regulated under the Tax Deed of Covenant. The surrender of available tax losses from the Topco Restricted Group companies to the Acromas Group or the Saga Group companies or vice versa must be for consideration equal to the tax value of the losses surrendered and any other tax transactions entered into between the Topco Restricted Group companies and Acromas Group and Saga Group companies may only be entered into if any such tax transaction leaves each member of the Topco Restricted Group, taken together, and each member of the Acromas Group and the Saga Group, taken together, in no worse net economic position than they would have been in had such tax transaction not taken place.

The Tax Deed of Covenant places certain restrictions on the surrender of tax losses between members of the Acromas Group and the Saga Group and members of the Topco Restricted Group. A member of the Topco Restricted Group may accept a surrender of tax losses from a member of the Acromas Group or the Saga Group only after (i) any member of the Topco Restricted Group which has tax losses for the relevant accounting period has agreed to surrender all such losses exclusively to other Topco Restricted Group members and (ii) any Acromas Group or Saga Group member which has tax losses for the relevant accounting period which relate to an arm's length loan granted by a bank or other financial institution has agreed to surrender all such losses exclusively to other Topco Restricted Group members.

See "*Summary—Recent Developments—Taxes*" for a description of our business following the Refinancing.

Costs in respect of the inter-group trading relationships covered by the Umbrella Services Agreement are charged to each of the AA Group and the Saga Group, on the basis of the proportionate allocation of resources.

Shift in Segmental Analysis

During the six month period ended 31 July 2013, we transferred our road sign business from our driving services segment to our roadside assistance segment. As a result, we have restated segmental turnover and segmental Trading EBITDA for the year ended 31 January 2013 with respect to roadside assistance and driving services. Consequently, segmental turnover and segmental Trading EBITDA for the years ended 31 January 2011 and 2012 with respect to our roadside assistance segment and driving services segment are not directly comparable to segmental turnover and segmental Trading EBITDA for the six month period ended 31 July 2013 and the year ended 31 January 2013.

Key Operating Measures

We use several key operating measures, including number of roadside assistance personal members, number of roadside assistance business customers, breakdowns attended, average income from personal members and policy numbers in force, 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 our internal operating and financial systems. As defined by our management, these terms may not be directly comparable to similar terms used by competitors or other companies.

The following table sets forth our key operating measures as of and for the periods indicated.

	Year ended 31 January			Six months ended 31 July	
	2011	2012	2013	2012	2013
	(in thousands, except as otherwise indicated)				
Roadside Assistance					
Number of personal members[1]	4,150	4,121	4,093	4,122	4,044
Number of business customers[2]	7,821	8,507	8,652	8,607	8,579
Total	**11,971**	**12,628**	**12,745**	**12,729**	**12,623**
Breakdowns attended (millions)	3.6	3.4	3.7	1.7	1.8
Average income from personal members (£ actual)[3]	111.1	114.1	118.0	115.0	121.0
Insurance services					
Policy numbers in force[4]	2,691	2,759	2,538	2,674	2,447

(1) Number of personal members represents the average number of roadside assistance personal members during the twelve month period ending on the specified date.

(2) Number of business customers represents the average number of roadside assistance B2B customers during the twelve month period ending on the specified date. The increased number of business customers in 2012 was due to the Halifax and the Bank of Scotland offerings of AVAs to their customers.

(3) Average income from personal members represents the average income generated from a roadside assistance personal member, which is calculated by dividing (i) turnover generated from the sale of memberships and turnover from the sale of parts and additional services to roadside assistance personal members by (ii) the total number of personal members, during twelve month period ending on the specified date.

(4) Policy numbers in force represents the total number of insurance policies in force, including motor, home and travel insurance and home emergency policies, at the end of the specified period.

Presentation of Financial Information

The following is a discussion of our key profit and loss account items. For additional information, see "*Note 1*" to our audited consolidated financial statements as of and for the year ended 31 January 2013 included on our website.

Turnover

Turnover consists of income generated primarily from four core segments, roadside assistance, insurance services, driving services and AA Ireland. Roadside assistance turnover is primarily generated through the sale of annual roadside assistance memberships and related products to personal members and through payments for usage of our roadside service by B2B customers under multi-year contracts. Insurance services turnover is primarily generated through commissions earned on the sale and administration of motor insurance and home insurance policies and ancillary add-on products, as well as from the sale of home emergency services and services and commissions paid by financial institutions for the sale of savings accounts, credit cards and loan products. Driving services turnover is primarily derived from franchise fees paid to us by driving instructors, lesson fees from motorists, corporate fleet training services and the sale of AA publications. AA Ireland income consists of turnover earned in connection with our Ireland-based roadside assistance and insurance services sectors.

In addition to the turnover from our four core segments, we have historically received low levels of insurance underwriting revenue as a result of reinsurance premiums from insurance companies within the Acromas Group. Furthermore, there are certain management fees payable to other Acromas companies that offset the above turnover streams, which are not allocated to a segment as they do not reflect the segmental trading performance. Following the Refinancing and the Separation, we no longer pay these management fees to the Acromas Group. See "*Summary—Recent Developments—The Separation*."

Cost of Sales

Cost of sales includes the operational costs of our roadside assistance segment, which includes patrol salaries, vehicle costs (including depreciation), garaging fees, petrol, parts costs, costs of answering and responding to roadside service related calls and the management of service delivery activities. Furthermore, cost of sales includes costs relating to our home

emergency business, our driving school vehicle fleet, driving school course instructor fees, preparing and providing our driving courses to corporate fleet customers and publishing. Reinsurance claims costs are also reported within our costs of sales. We also include certain exceptional costs within cost of sales, including onerous lease contracts in connection with our driving services segment, which were incurred in 2012.

Administrative and marketing expenses

Administrative and marketing expenses includes our personnel costs relating to sales and service call centres, as well as back-office staff. Administrative and marketing expenses also include marketing costs such as Internet search fees, mailshots, direct response television campaigns and press advertising, along with head office costs. Other administrative and marketing expenses include the amortisation of goodwill, pension curtailment costs and credits and exceptional items such as redundancy payments resulting from significant restructuring activities. Depreciation of IT systems, property rental and facilities costs, the cost of the corporate insurance programme and other office costs such as stationery are also included in our administrative and marketing expenses.

Our head office costs do not relate to any revenue generating operations. The costs cover administrative expenses relating to head office and back-office functions, including finance, human resources and IT support and development.

Other operating income

Other operating income consists of investment return on cash held within our insurance underwriting and AA Ireland segments, which is treated as restricted cash, as it is not available for general corporate use due to regulatory restrictions imposed upon those businesses.

Share of profits in associates

Share of profits in associates consists of revenue generated by our investment in ACTA Assistance ("**ACTA**"), a company which provides roadside assistance to certain of our personal members and B2B customers while traveling in certain European countries. In turn, we provide reciprocal roadside assistance services to ACTA customers while they are travelling within the United Kingdom.

Net interest payable and similar charges

Net interest payable and similar charges consist primarily of interest on shareholder loans and interest incurred on finance lease agreements. In addition, the unwinding of discounts on provisions (including pension provisions) and bank overdraft interest are included within net interest payable and similar charges.

Taxation

Taxation is the corporate tax charge for the year after taking any deferred tax into consideration. Our effective tax rate for the year ended 31 January 2013 was 24.33%. Our effective tax rate in the future will be generally in line with historical rates. However, we expect that our payable tax will decrease due to the interest expense incurred in connection with the Refinancing.

Exceptional items

In assessing whether a cost is exceptional in nature, we consider, among other factors, its size, likelihood of recurrence and whether it is closely linked to our ongoing trading activities. Exceptional items are reflected in the line item that most closely reflects their nature. We incurred certain exceptional items in cost of sales and administrative and marketing expenses. Cost of sales exceptional items relate to two onerous lease contracts within our driving services segment, which were incurred in 2012. Administrative and marketing expense exceptional items have historically included: (i) restructuring costs primarily relating to redundancy costs, professional fees and the reorganisation of our operations, (ii) exit penalty costs as a result of our termination of a long-term IT outsourcing contract, (iii) IT system replacement project costs, (iv) provisions for future lease costs with respect to vacant properties, net of expected sub-leasing income and (v) costs in relation to the Refinancing.

Trading EBITDA

Trading EBITDA is used as a key measure of underlying performance and is defined as profit before (i) taxation, (ii) net interest payable and similar charges, (iii) goodwill amortisation, (iv) exceptional items, (v) pension curtailment gain, (vi) items not allocated to a segment and (vii) depreciation. Items not allocated to a segment relate to transactions that do not form part of the ongoing segment performance (including head office costs) and include transactions which are one-off in nature or relate to the element of management charges from the Acromas Group for accessing shared services used by each of the AA Group, Saga Group and Acromas Group. See "*Presentation of Financial and Other Information*."

The table below sets forth the reconciliation of profit to Trading EBITDA for the periods indicated.

	Year ended 31 January			Six months ended 31 July	
	2011	2012	2013	2012	2013
			(£ in millions)		
Profit for the period	**119.6**	**113.1**	**120.5**	**61.6**	**50.5**
Taxation	75.6	69.1	69.0	37.3	31.0
Profit on ordinary activities before taxation	**195.2**	**182.2**	**189.5**	**98.9**	**81.5**
Net interest payable and similar charges	90.4	35.2	43.0	20.9	41.2
Profit on sale of joint ventures	—	(0.6)	(3.1)	(3.1)	—
Group operating profit	**285.6**	**216.8**	**229.4**	**116.7**	**122.7**
Goodwill amortisation	92.6	92.9	93.0	46.4	46.5
Exceptional items[(a)]	6.2	16.7	30.0	1.3	10.2
Pension curtailment gain[(b)]	(46.2)	—	—	—	—
Items not allocated to a segment[(c)]	2.6	5.0	4.3	6.5	5.0
Depreciation	30.0	36.7	37.9	19.0	19.4
Trading EBITDA	**370.8**	**368.1**	**394.6**	**189.9**	**203.8**

(a) Exceptional items are reflected in the line item that most closely reflects their nature. For further information on exceptional items, see "*—Consolidated Results of Operations for the Six Months Ended 31 July 2012 and 2013*," "*—Consolidated Results of Operations for the Years Ended 31 January 2012 and 2013*" and "*—Consolidated Results of Operations for the Years Ended 31 January 2011 and 2012*."

(b) For further information on pension curtailment gain, see "*—Consolidated Results of Operations for the Years Ended 31 January 2011 and 2012*."

(c) Items not allocated to a segment relate to transactions that do not form part of the ongoing segment performance (including head office costs) and include transactions which are one-off in nature or relate to the element of management charges from the Acromas Group for accessing shared services used by each of the AA Group, Saga Group and Acromas Group.

Consolidated Results of Operations for the Six Months Ended 31 July 2012 and 2013

The table below sets forth our results of operations for the periods under review.

	Six months ended 31 July	
	2012	2013
	(£ in millions)	
Turnover	**476.9**	**484.1**
Cost of sales	(174.9)	(171.3)
Gross profit	**302.0**	**312.8**
Administrative and marketing expenses	(186.3)	(190.1)
Other operating income	1.0	—
Operating profit before share of profits in associates	**116.7**	**122.7**
Share of profits in associates	—	—
Operating profit	**116.7**	**122.7**
Trading EBITDA	189.9	203.8
Items not allocated to a segment	(6.5)	(5.0)
Depreciation	(19.0)	(19.4)
Goodwill amortisation	(46.4)	(46.5)
Exceptional items[(1)]	(1.3)	(10.2)
Pension curtailment gain	—	—
Operating profit	**116.7**	**122.7**
Profit on sale of joint venture	3.1	—
Net interest payable and similar charges	(20.9)	(41.2)
Profit on ordinary activities before taxation	**98.9**	**81.5**
Taxation	(37.3)	(31.0)
Profit for the period	**61.6**	**50.5**

(1) Exceptional items are reflected in the line item that most closely reflects their nature. We incurred certain exceptional items in administrative and marketing expense, primarily relating to redundancy costs and costs in relation to the Refinancing.

Turnover

Our turnover increased by £7.2 million, or 1.5%, from £476.9 million in the six months ended 31 July 2012 to £484.1 million in the six months ended 31 July 2013. The increase in turnover was primarily driven by growth in the roadside assistance segment, as described below.

The table below sets forth, for each of the periods indicated, our turnover by segment, both in pounds sterling and as a percentage of consolidated turnover.

	Six months ended 31 July			
	2012		2013	
	(£ in millions)	(in % of turnover)	(£ in millions)	(in % of turnover)
Roadside assistance[1]	335.2	70.3	346.1	71.5
Insurance services	80.3	16.8	75.5	15.6
Driving services[1]	45.0	9.4	42.4	8.8
AA Ireland	19.4	4.1	20.1	4.1
Insurance underwriting	—	—	—	—
Trading turnover	479.9	100.6	484.1	100.0
Turnover not allocated to a segment	(3.0)	(0.6)	—	—
Turnover	**476.9**	**100.0**	**484.1**	**100.0**

(1) During the six month period ended 31 July 2013, we transferred our road sign business from our driving services segment to our roadside assistance segment. As a result, we have restated the figures for the year ended 31 January 2013 with respect to roadside assistance and driving services in the table above to reflect turnover generated from our road sign business within our roadside assistance segment for the year ended 31 January 2013, the six months ended 31 July 2012, the six months ended 31 July 2013 and the twelve months ended 31 July 2013.

An analysis of our turnover by segment is set forth below:

Roadside assistance: Our turnover from roadside assistance increased by £10.9 million, or 3.3%, from £335.2 million in the six months ended 31 July 2012 to £346.1 million in the six months ended 31 July 2013. The increase in turnover was driven primarily by stable personal member retention rates and increased income per personal member, as well as increased usage of the service by our B2B customers. Average income from personal members increased as a result of improved pricing and fewer discounts implemented during the year ended 31 January 2013, the benefits of which were recognised in the six months ended 31 July 2013. In addition, the increase in B2B turnover was partially due to higher usage, primarily driven by adverse weather conditions experienced in the six months ended 31 July 2013.

Insurance services: Our turnover from insurance services decreased by £4.8 million, or 6.0%, from £80.3 million in the six months ended 31 July 2012 to £75.5 million in the six months ended 31 July 2013. The decrease in turnover in the six months ended 31 July 2013 was driven by lower motor insurance broking income and ancillary income streams derived from motor insurance customers as our underwriting panel continues to focus on customers who are existing AA personal members with strong credit histories. However, the decrease in turnover from insurance services was partially mitigated as a result of strong retention rates for both motor and home insurance customers. The decline in turnover from motor insurance services was also partially offset by growth in turnover from our home emergency products, as a result of growth in income from both personal members and B2B customers.

Driving services: Our turnover from driving services decreased by £2.6 million, or 5.8%, from £45.0 million in the six months ended 31 July 2012 to £42.4 million in the six months ended 31 July 2013. The decrease in turnover was primarily due to our decision to remove less profitable titles from our media business in the year ended 31 January 2012 and the beginning of the year ended 31 January 2013. We also experienced a small decline in the number of driving school pupils as a result of a decline in the number of provisional driving license applications during the period.

AA Ireland: Our turnover from AA Ireland increased by £0.7 million, or 3.6%, from £19.4 million in the six months ended 31 July 2012 to £20.1 million in the six months ended 31 July 2013. On a constant currency basis (calculated by applying a sterling to euro exchange rate of 1.2335, determined by averaging the month end rates for each month in the six months ended 31 July 2012, as published by the Financial Times, to AA Ireland euro denominated turnover for the six months ended 31 July 2013), our turnover from AA Ireland was £19.0 million in the six months ended 31 July 2013.

Cost of Sales

Our cost of sales decreased by £3.6 million, or 2.1%, from £174.9 million in the six months ended 31 July 2012 to £171.3 million in the six months ended 31 July 2013. The decrease in cost of sales was partially due to headcount reductions conducted in the year ended 31 January 2013 and reduced driving school vehicle costs in connection with reduced pricing for driving school vehicles, which were negotiated in the year ended 31 January 2013. However, this decrease was partially offset by additional costs for the use of third-party garages within the roadside assistance segment due to adverse weather conditions experienced during the six months ended 31 July 2013.

Administrative and marketing expenses

Our administrative and marketing expenses increased by £3.8 million, or 2.0%, from £186.3 million in the six months ended 31 July 2012 to £190.1 million in the six months ended 31 July 2013. The increase in administrative and marketing expenses was driven by £10.2 million of costs incurred in connection with exceptional items relating to the Refinancing and redundancy costs, which were incurred during the six months ended 31 July 2013. There were £1.3 million of exceptional redundancy costs in the six months ended 31 July 2012. These one off costs were partially offset by savings realised in connection with the closure of two call centres in the year ended 31 January 2013 and further savings realised in connection with the restructuring of certain head office functions in the year ended 31 January 2013.

Other operating income

Our other operating income decreased by £1.0 million, or 100.0%, from £1.0 million in the six months ended 31 July 2012 to nil in the six months ended 31 July 2013. The decrease in other operating income was due to reduced insurance underwriting activities.

Net interest payable and similar charges

Our net interest payable and similar charges increased by £20.3 million, or 97.1%, from £20.9 million in the six months ended 31 July 2012 to £41.2 million in the six months ended 31 July 2013. The increase in net interest payable and similar charges was primarily due to interest with respect to our indebtedness incurred in connection with the Refinancing.

Taxation

Our taxation decreased by £6.3 million, or 16.9%, from £37.3 million in the six months ended 31 July 2012 to £31.0 million in the six months ended 31 July 2013. This difference is primarily attributable to the tax deduction obtained from the additional interest with respect to our indebtedness incurred in connection with the Refinancing, as well as the expected implementation of the ABF for the AA UK Pension Scheme.

Trading EBITDA

Trading EBITDA is a non-UK GAAP measure and is not a substitute for any UK GAAP measure. We use this measure for many purposes in managing and directing our company.

Our Trading EBITDA increased by £13.9 million, or 7.3%, from £189.9 million in the six months ended 31 July 2012 to £203.8 million in the six months ended 31 July 2013. As a percentage of Trading turnover, Trading EBITDA margin increased from 39.6% in the six months ended 31 July 2012 to 42.1% in the six months ended 31 July 2013. The increase in both Trading EBITDA and Trading EBITDA margin primarily related to growth in our roadside assistance and insurance services segments, as described below.

The table below sets forth, for each of the periods indicated, our Trading EBITDA by segment, both in pounds sterling and as a percentage of consolidated Trading EBITDA.

	Six months ended 31 July			
	2012		2013	
	(£ in millions)	(in % of Trading EBITDA)	(£ in millions)	(in % of Trading EBITDA)
Roadside assistance[1]	155.8	82.0	168.1	82.5
Insurance services	42.7	22.5	44.4	21.8
Driving services[1]	8.8	4.6	8.6	4.2
AA Ireland	6.0	3.2	7.2	3.5
Insurance underwriting	0.8	0.4	—	—
Head office costs	(24.2)	(12.7)	(24.5)	(12.0)
Trading EBITDA	**189.9**	**100.0**	**203.8**	**100.0**

(1) During the six month period ended 31 July 2013, we transferred our road sign business from our driving services segment to our roadside assistance segment. As a result, we have restated the figures for the year ended 31 January 2013 with respect to roadside assistance and driving services in the table above to reflect Trading EBITDA generated from our road sign business within our roadside assistance segment for the year ended 31 January 2013, the six months ended 31 July 2012, the six months ended 31 July 2013 and the twelve months ended 31 July 2013.

An analysis of our Trading EBITDA by segment is set forth below:

Roadside assistance: Our Trading EBITDA from roadside assistance increased by £12.3 million, or 7.9%, from £155.8 million in the six months ended 31 July 2012 to £168.1 million in the six months ended 31 July 2013. As a percentage of roadside assistance turnover, Trading EBITDA increased from 46.5% in the six months ended 31 July 2012 to 48.6% in the six months ended 31 July 2013. The increase in both Trading EBITDA and Trading EBITDA margin was driven primarily by stable personal member retention rates and increased income per personal member, as well as increased usage of roadside service by our B2B customers, who pay for the service based on the number of callouts, as a result of adverse weather conditions during the six months ended 31 July 2013. Cost saving initiatives implemented during the year ended 31 January and the improved performance of the windscreen replacement business during the six months ended 31 July 2013 also increased Trading EBITDA margin.

Insurance services: Our Trading EBITDA from insurance services increased by £1.7 million, or 4.0%, from £42.7 million in the six months ended 31 July 2012 to £44.4 million in the six months ended 31 July 2013. As a percentage of insurance services turnover, Trading EBITDA increased from 53.2% in the six months ended 31 July 2012 to 58.8% in the six months ended 31 July 2013. The increase in both Trading EBITDA and Trading EBITDA margin was driven by our home emergency services becoming profitable after investment in marketing and operational resources in the six months ended 31 July 2012, as well as cost saving initiatives that led to the consolidation of call centre operations and the withdrawal from a number of inefficient marketing channels. The increase in Trading EBITDA within our insurance services segment was partially offset by lower motor insurance broking income and ancillary income streams derived from motor insurance customers as our underwriting panel continues to focus on customers who are existing AA personal members with strong credit histories.

Driving services: Our Trading EBITDA from driving services decreased by £ 0.2 million, or 2.3%, from £8.8 million in the six months ended 31 July 2012 to £8.6 million in the six months ended 31 July 2013. As a percentage of driving services turnover, Trading EBITDA increased from 19.6% in the six months ended 31 July 2012 to 20.3% in the six months ended 31 July 2013. The increase in Trading EBITDA margin was primarily due to reduced costs resulting from the restructuring of publishing activities and certain head office functions, partially offset by the impact of the lower number of driving school pupils during the six months ended 31 July 2013.

AA Ireland: Our Trading EBITDA from AA Ireland increased by £1.2 million, or 20.0%, from £6.0 million in the six months ended 31 July 2012 to £7.2 million in the six months ended 31 July 2013, which was primarily due to headcount reductions achieved in the year ended 31 January 2013 across management, patrols and contact centres. This was partially offset by the additional costs for third- party garages, which were incurred due to adverse weather conditions experienced during the six months ended 31 July 2013. On a constant currency basis (calculated by applying a sterling to euro exchange rate of 1.2335, determined by averaging the month end rates for each month in the six months ended 31 July 2012 as published by the Financial Times, to AA Ireland euro denominated Trading EBITDA for the six months ended 31 July 2013) our Trading EBITDA from AA Ireland was £6.8 million in the six months ended 31 July 2013. As a percentage of AA Ireland turnover, Trading EBITDA increased from 30.9% in the six months ended 31 July 2012 to 35.8% in the six months ended 31 July 2013.

Head office costs: Our head office costs increased by £0.3 million, or 1.2%, from £24.2 million in the six months ended 31 July 2012 to £24.5 million in the six months ended 31 July 2013.

Consolidated Results of Operations for the Years Ended 31 January 2012 and 2013

The table below sets forth our results of operations for the periods under review.

	Year ended 31 January	
	2012	2013
	(£ in millions)	
Turnover	**973.9**	**968.0**
Cost of sales	(385.2)	(349.4)
Gross profit	**588.7**	**618.6**
Administrative and marketing expenses	(374.7)	(391.3)
Other operating income	2.4	1.4
Operating profit before share of profits in associates	**216.4**	**228.7**
Share of profits in associates	0.4	0.7
Operating profit	**216.8**	**229.4**
Trading EBITDA	368.1	394.6
Items not allocated to a segment	(5.0)	(4.3)
Depreciation	(36.7)	(37.9)
Goodwill amortisation	(92.9)	(93.0)
Exceptional items[1]	(16.7)	(30.0)
Pension curtailment gain	—	—
Operating profit	**216.8**	**229.4**
Profit on sale of joint venture	0.6	3.1
Net interest payable and similar charges	(35.2)	(43.0)
Profit on ordinary activities before taxation	**182.2**	**189.5**
Taxation	(69.1)	(69.0)
Profit for the financial year	**113.1**	**120.5**

(1) We incurred certain exceptional items in cost of sales and administrative and marketing expenses. Cost of sales exceptional items relate to two onerous lease contracts within our driving services segment, which were incurred in 2012. Administrative and marketing expense exceptional items have historically included: (i) restructuring costs primarily relating to redundancy costs, professional fees and the reorganisation of our operations, (ii) exit penalty costs as a result of our termination of a long-term IT outsourcing contract, (iii) IT system replacement project costs and (iv) provisions for future lease costs with respect to vacant properties, net of expected sub-leasing income.

Turnover

Our turnover decreased by £5.9 million, or 0.6%, from £973.9 million in the year ended 31 January 2012 to £968.0 million in the year ended 31 January 2013. The decrease in turnover was primarily driven by our decision to cease writing reinsurance business in our insurance underwriting segment, as further described below. Excluding the insurance underwriting segment, turnover increased by £19.9 million, or 2.1%, from £948.1 million in the year ended 31 January 2012 to £968.0 million in the year ended 31 January 2013. This increase was primarily driven by growth in the roadside assistance segment, as described below.

The table below sets forth, for each of the periods indicated, our turnover by segment, both in pounds sterling and as a percentage of consolidated turnover.

	Year ended 31 January			
	2012		2013	
	(£ in millions)	(in % of turnover)	(£ in millions)	(in % of turnover)
Roadside assistance[1]	645.3	66.3	674.1	69.6
Insurance services	168.4	17.3	162.1	16.7
Driving services[1]	96.9	9.9	96.5	10.0
AA Ireland	42.3	4.3	38.3	4.0
Insurance underwriting	25.8	2.7	—	—
Trading turnover	978.7	100.5	971.0	100.3
Turnover not allocated to a segment	(4.8)	(0.5)	(3.0)	(0.3)
Turnover	**973.9**	**100.0**	**968.0**	**100.0**

(1) During the six months ended 31 July 2013, the management responsibility for the Group's road sign business was transferred from Driving Services to Roadside Assistance. As a result the above analysis for the Roadside Assistance and Driving Services segments are not comparable to the analysis for the six months ended 31 July 2012 and 2013.

An analysis of our turnover by segment is set forth below:

Roadside assistance: Our turnover from roadside assistance increased by £28.8 million, or 4.5%, from £645.3 million in the year ended 31 January 2012 to £674.1 million in the year ended 31 January 2013. The increase in turnover was driven primarily by increased personal member retention rates and income per personal member, as well as increased usage by B2B customers, who pay for the service based on the number of callouts, as a result of adverse weather conditions during the year ended 31 January 2013. We believe that personal member retention rates increased as a result of improvements in our retention processes during the course of the year, as well as the introduction of tiered product enhancements provided to personal members based on membership tenure and proactive discounts offered to certain low tenure personal members. Average income from personal members increased as a result of improved price and discounting effectiveness, facilitated by the implementation of our proprietary data collection systems and increased cross-sell and up-sell efforts within our personal membership base.

Insurance services: Our turnover from insurance services decreased by £6.3 million, or 3.7%, from £168.4 million in the year ended 31 January 2012 to £162.1 million in the year ended 31 January 2013. The decrease in turnover in the year ended 31 January 2013 was primarily due to our underwriting panel focusing on personal members with strong credit histories, where it was able to apply a more competitive pricing strategy, and declining to offer competitive prices to higher risk customer groups. This was partially offset by an increase in renewal rates among motor insurance customers as the provision of our proprietary risk information to our panel of underwriters has led to competitive renewal premiums for roadside personal members, resulting in increased renewal rates. The decline in turnover from motor insurance services was also partially offset by growth in turnover from our home insurance and home emergency products. Turnover from these products grew as a result of our increased efforts to promote cross-holding among our database of roadside assistance personal members and, in the case of home emergency, our continued marketing efforts to promote new service offerings.

Driving services: Our turnover from driving services decreased by £0.4 million, or 0.4%, from £96.9 million in the year ended 31 January 2012 to £96.5 million in the year ended 31 January 2013. The decrease in turnover was primarily due to our decision to remove less profitable titles from our media business. We also experienced a small decline in the number of driving instructor franchisees as a result of lower provisional driving license applications during the year.

AA Ireland: Our turnover from AA Ireland decreased by £4.0 million, or 9.5% from £42.3 million in the year ended 31 January 2012 to £38.3 million in the year ended 31 January 2013. On a constant currency basis (calculated by applying a sterling to Euro exchange rate of 1.1538, determined by averaging the month end rates for each month in the year ended 31 January 2012, as published by the Financial Times, to AA Ireland euro denominated turnover for the year ended 31 January 2013), our turnover from AA Ireland was £40.9 million in the year ended 31 January 2013.

Insurance underwriting: Our turnover from insurance underwriting decreased by £25.8 million, or 100.0%, from £25.8 million in the year ended 31 January 2012 to nil in the year ended 31 January 2013. The decrease in turnover was primarily due to our decision to cease writing new reinsurance business in our insurance underwriting segment as of 1 February 2012.

Cost of Sales

Our cost of sales decreased by £35.8 million, or 9.3%, from £385.2 million in the year ended 31 January 2012 to £349.4 million in the year ended 31 January 2013. The decrease in cost of sales was primarily driven by our decision to cease writing reinsurance business in our insurance underwriting segment. Excluding insurance underwriting and exceptional items, cost of sales increased by £0.5 million, or 0.1%, from £351.8 million in the year ended 31 January 2012 to £352.3 million in the year ended 31 January 2013. The increase in cost of sales, excluding insurance underwriting and exceptional items, was driven by increased operational costs due to adverse weather conditions during the year ended 31 January 2013. However, this was largely offset by increased operational efficiency with respect to our patrols, as well as lower publishing costs in connection with our media business in our driving services segment. Exceptional costs within cost of sales were £7.4 million in the year ended 31 January 2012, which were related to onerous lease contract costs within the Group's Driving Services operations. We did not incur exceptional costs within cost of sales in the year ended 31 January 2013.

Administrative and marketing expenses

Our administrative and marketing expenses increased by £16.6 million, or 4.4%, from £374.7 million in the year ended 31 January 2012 to £391.3 million in the year ended 31 January 2013. The increase in administrative and marketing expenses was driven by exceptional costs.

Excluding exceptional costs, our administrative and marketing expense decreased from £365.4 million in the year ended 31 January 2012 to £361.3 million in the year ended 31 January 2013. Exceptional costs within administrative and marketing costs were £9.3 million in the year ended 31 January 2012, as compared to £30.0 million in the year ended 31 January 2013. The increase in exceptional costs for the year ended 31 January 2013 was related to the closure of two call centres, head office redundancies and onerous property lease costs.

Other operating income

Our other operating income decreased by £1.0 million, or 41.7%, from £2.4 million in the year ended 31 January 2012 to £1.4 million in the year ended 31 January 2013. The decrease in other operating income was primarily due to reduced underwriting activities.

Share of profits in associates

Our share of profits in associates increased by £0.3 million, or 75.0%, from £0.4 million in the year ended 31 January 2012 to £0.7 million in the year ended 31 January 2013.

Net interest payable and similar charges

Our net interest payable and similar charges increased by £7.8 million, or 22.2%, from £35.2 million in the year ended 31 January 2012 to £43.0 million in the year ended 31 January 2013. The increase in net interest payable and similar charges was primarily due to increased interest in connection with the interest on our shareholder loans, which is added each year to the principal amount outstanding and therefore generates a corresponding increase in interest thereon. These loans were repaid in connection with the Refinancing.

Taxation

Our taxation remained largely unchanged from £69.1 million in the year ended 31 January 2012 to £69.0 million in the year ended 31 January 2013.

Trading EBITDA

Trading EBITDA is a non-UK GAAP measure and is not a substitute for any UK GAAP measure. We use this measure for many purposes in managing and directing our company.

Our Trading EBITDA increased by £26.5 million, or 7.2%, from £368.1 million in the year ended 31 January 2012 to £394.6 million in the year ended 31 January 2013. As a percentage of Trading turnover, Trading EBITDA increased from 37.6% in the year ended 31 January 2012 to 40.6% in the year ended 31 January 2013. The increase in both Trading EBITDA and Trading EBITDA margin primarily related to growth in our roadside assistance and insurance services segments, as described below.

The table below sets forth, for each of the periods indicated, our Trading EBITDA by segment, both in pounds sterling and as a percentage of consolidated Trading EBITDA.

	Year ended 31 January			
	2012		**2013**	
	(£ in millions)	**(in % of Trading EBITDA)**	**(£ in millions)**	**(in % of Trading EBITDA)**
Roadside assistance[1]	298.9	81.2	317.6	80.5
Insurance services	87.3	23.7	93.1	23.6
Driving services[1]	15.1	4.1	19.6	5.0
AA Ireland	14.2	3.9	13.0	3.3
Insurance underwriting	2.0	0.5	0.6	0.2
Head office costs	(49.4)	(13.4)	(49.3)	(12.5)
Trading EBITDA	**368.1**	**100.0**	**394.6**	**100.0**

(1) During the six months ended 31 July 2013, the management responsibility for the Group's road sign business was transferred from Driving Services to Roadside Assistance. As a result the above analysis for the Roadside Assistance and Driving Services segments are not comparable to the analysis for the six months ended 31 July 2012 and 2013.

An analysis of our Trading EBITDA by segment is set forth below:

Roadside assistance: Our Trading EBITDA from roadside assistance increased by £18.7 million, or 6.3%, from £298.9 million in the year ended 31 January 2012 to £317.6 million in the year ended 31 January 2013. As a percentage of roadside assistance turnover, Trading EBITDA increased from 46.3% in the year ended 31 January 2012 to 47.1% in the year ended 31 January 2013. The increase in both Trading EBITDA and Trading EBITDA margin was driven by increased personal member retention rates, average income from personal members and increased usage of the roadside service by our B2B customers. Trading EBITDA and Trading EBITDA margin were also influenced by increased operational efficiency with respect to our patrols, as a result of higher levels of utilisation and patrol hours deployed on the road in connection with

changes in our deployment and resource planning systems and our investment in equipment and technology to maximise efficiency at the roadside. Also we did not repeat our investments in marketing and member retention activities which were carried out during the year ended 31 January 2012, which reduced the Trading EBITDA and Trading EBITDA margin in that year.

Insurance services: Our Trading EBITDA from insurance services increased by £5.8 million, or 6.6%, from £87.3 million in the year ended 31 January 2012 to £93.1 million in the year ended 31 January 2013. As a percentage of insurance services turnover, Trading EBITDA increased from 51.8% in the year ended 31 January 2012 to 57.4% in the year ended 31 January 2013. The increase in both Trading EBITDA and Trading EBITDA margin was driven by our home emergency services becoming profitable after investment in marketing and operational resources in the year ended 31 January 2012, as well as cost saving initiatives that led to the consolidation of call centre operations. These areas of Trading EBITDA growth within our insurance services segment were partly offset by lower levels of Trading EBITDA in connection with our motor insurance products and services. Trading EBITDA for motor insurance was lower primarily as a result of our underwriting panel adopting a more competitive approach for customers who had strong credit scores by offering insurance cover at lower premiums (and consequently lower commissions), while underwriting fewer policies to higher risk individuals who typically attract a higher level of commission.

Driving services: Our Trading EBITDA from driving services increased by £4.5 million, or 29.8%, from £15.1 million in the year ended 31 January 2012 to £19.6 million in the year ended 31 January 2013. As a percentage of driving services turnover, Trading EBITDA increased from 15.6% in the year ended 31 January 2012 to 20.3% in the year ended 31 January 2013. The increase in both Trading EBITDA and Trading EBITDA margin was primarily due to continued growth in our driver training business in connection with increased demand for services offered by AA DriveTech, as well as the restructuring of our publishing activities, which involved streamlining the number of AA-branded items published and focusing on more profitable titles during the year ended 31 January 2012.

AA Ireland: Our Trading EBITDA from AA Ireland decreased by £1.2 million, or 8.5%, from £14.2 million in the year ended 31 January 2012 to £13.0 million in the year ended 31 January 2013, which was primarily due to the strengthening of the euro against the pound sterling in the year ended 31 January 2013. However, on a constant currency basis (calculated by applying a sterling to Euro exchange rate of 1.1538, determined by averaging the month end rates for each month in the year ended 31 January 2012 as published by the Financial Times, to AA Ireland euro denominated Trading EBITDA for the year ended 31 January 2013) our Trading EBITDA from AA Ireland was £13.9 million in the year ended 31 January 2013. As a percentage of AA Ireland turnover, Trading EBITDA increased from 33.6% in the year ended 31 January 2012 to 33.9% in the year ended 31 January 2013.

Insurance underwriting: Our Trading EBITDA from insurance underwriting decreased by £1.4 million, or 70.0%, from £2.0 million in the year ended 31 January 2012 to £0.6 million in the year ended 31 January 2013. As a percentage of insurance underwriting turnover, Trading EBITDA decreased from 7.8% in the year ended 31 January 2012 to 0.0% in the year ended 31 January 2013. The decrease in both Trading EBITDA and Trading EBITDA margin was due to our decision to cease writing new reinsurance business in our insurance underwriting segment from 1 February 2012.

Head office costs: Our head office costs remained largely unchanged from £49.4 million in the year ended 31 January 2012 to £49.3 million in the year ended 31 January 2013.

Consolidated Results of Operations for the Years Ended 31 January 2011 and 2012

The table below sets forth our results of operations and the period on period percentage of change for the periods under review.

	Year ended 31 January	
	2011	2012
	(£ in millions)	
Turnover	**944.4**	**973.9**
Cost of sales	(359.1)	(385.2)
Gross profit	**585.3**	**588.7**
Administrative and marketing expenses	(302.7)[1]	(374.7)
Other operating income	2.8	2.4
Operating profit before share of profits in associates	**285.4**	**216.4**
Share of profits in associates	0.2	0.4
Operating profit	**285.6**	**216.8**
Trading EBITDA	370.8	368.1
Items not allocated to a segment	(2.6)	(5.0)
Depreciation	(30.0)	(36.7)
Goodwill amortisation	(92.6)	(92.9)
Exceptional items[2]	(6.2)	(16.7)
Pension curtailment gain	46.2	—
Operating profit	**285.6**	**216.8**
Profit on sale of joint venture	—	0.6
Net interest payable and similar charges	(90.4)	(35.2)
Profit on ordinary activities before taxation	**195.2**	**182.2**
Taxation	(75.6)	(69.1)
Profit for the financial year	**119.6**	**113.1**

(1) Administrative and marketing expenses in the year ended 31 January 2011 were reduced by a non-recurring pension curtailment gain in the amount of £46.2 million relating to certain changes in the method by which previously earned pension benefits increase over time as part of the AA UK Pension Scheme. Excluding this curtailment gain, administrative and marketing expenses in 2011 would have been £348.9 million.

(2) We incurred certain exceptional items in cost of sales and administrative and marketing expenses. Cost of sales exceptional items relate to two onerous lease contracts within our driving services segment, which were incurred in 2012. Administrative and marketing expense exceptional items have historically included: (i) restructuring costs primarily relating to redundancy costs, professional fees and the reorganisation of our operations, (ii) exit penalty costs as a result of our termination of a long-term IT outsourcing contract, (iii) IT system replacement project costs and (iv) provisions for future lease costs with respect to vacant properties, net of expected sub-leasing income.

Turnover

Our turnover increased by £29.5 million, or 3.1%, from £944.4 million in the year ended 31 January 2011 to £973.9 million in the year ended 31 January 2012. The increase in turnover was driven by growth in roadside assistance and driving services, the latter supported by the acquisition of BSM in January 2011, both as described below.

The table below sets forth, for each of the periods indicated, our turnover by segment, both in pounds sterling and as a percentage of consolidated turnover.

	Year ended 31 January			
	2011		2012	
	(£ in millions)	(in % of turnover)	(£ in millions)	(in % of turnover)
Roadside assistance[1]	625.8	66.3	645.3	66.3
Insurance services	170.6	18.1	168.4	17.3
Driving services[1]	66.9	7.1	96.9	9.9
AA Ireland	42.5	4.5	42.3	4.3
Insurance underwriting	37.4	4.0	25.8	2.6
Trading turnover	943.2	99.9	978.7	100.5
Turnover not allocated to a segment	1.2	0.1	(4.8)	(0.5)
Turnover	**944.4**	**100.0**	**973.9**	**100.0**

(1) During the six months ended 31 July 2013, the management responsibility for the Group's road sign business was transferred from Driving Services to Roadside Assistance. As a result the above analysis for the Roadside Assistance and Driving Services segments are not comparable to the analysis for the six months ended 31 July 2012 and 2013.

An analysis of our turnover by segment is set forth below:

Roadside assistance: Our turnover from roadside assistance increased by £19.5 million, or 3.1%, from £625.8 million in the year ended 31 January 2011 to £645.3 million in the year ended 31 January 2012. The increase in turnover was largely attributable to increased turnover from personal members as a result of higher income per holding driven by price increases and higher product holdings. Increased turnover was also due to severe winter weather conditions in the year ended 31 January 2011, which led to increased usage of roadside assistance services by B2B customers and a corresponding increase in income received from those B2B partners who pay based on the usage by B2B customers.

Insurance services: Our turnover from insurance services decreased by £2.2 million, or 1.3%, from £170.6 million in the year ended 31 January 2011 to £168.4 million in the year ended 31 January 2012. The decrease in turnover was primarily due to lower commissions, personal injury referral fees and finance income from the motor insurance book as a result of our insurance panel reducing their exposure to higher risk customer groups. The decline in turnover from insurance services was partially off-set by growth in turnover from our home insurance and home emergency services.

Driving services: Our turnover from driving services increased by £30.0 million, or 44.8%, from £66.9 million in the year ended 31 January 2011 to £96.9 million in the year ended 31 January 2012. The increase in turnover was partly driven by the acquisition of BSM in January 2011, and from growth in turnover in our driver training business in connection with increased demand for services offered by AA DriveTech.

AA Ireland: Our turnover from AA Ireland decreased by £0.2 million, or 0.5%, from £42.5 million in the year ended 31 January 2011 to £42.3 million in the year ended 31 January 2012. The modest decrease in turnover was primarily due to a small reduction in the number of roadside assistance personal members. On a constant currency basis (calculated by applying a sterling to Euro exchange rate of 1.1691, determined by averaging the month end rates for each month in the year ended 31 January 2011, as published by the Financial Times, to AA Ireland euro denominated turnover for the year ended 31 January 2012), our AA Ireland turnover was £41.7 million in the year ended 31 January 2012.

Insurance underwriting: Our turnover from insurance underwriting decreased by £11.6 million, or 31.0%, from £37.4 million in the year ended 31 January 2011 to £25.8 million in the year ended 31 January 2012. The decrease in turnover was primarily due to our decision to cease writing new reinsurance business in our insurance underwriting segment.

Cost of Sales

Our cost of sales increased by £26.1 million, or 7.3%, from £359.1 million in the year ended 31 January 2011 to £385.2 million in the year ended 31 January 2012. The increase in cost of sales was primarily due to hiring activities which resulted in an increase in employee headcount within our roadside assistance segment, which was consistent with turnover growth. In addition, cost of sales increased as a result of the acquisition of BSM in January 2011 and increased customer volumes within our driver training business. We did not incur exceptional costs within cost of sales in the year ended 31 January 2011. However, we incurred £7.4 million of exceptional costs within cost of sales in the year ended 31 January 2012, which were primarily related to a restructuring of our patrol force to improve overall efficiency.

Administrative and marketing expenses

Our administrative and marketing expenses increased by £72.0 million, or 23.8%, from £302.7 million in the year ended 31 January 2011 to £374.7 million in the year ended 31 January 2012. The increase in administrative and marketing expenses was primarily due to a one-off pension curtailment credit received in the year ended 31 January 2011 of £46.2 million, when we restructured the benefits accruing within the AA Pension Scheme. For a discussion of our pension schemes, see "*Business—Employees and Pension Obligations*." Excluding pension curtailment gain, administrative and marketing expenses increased by £25.8 million, or 7.4% in the year ended 31 January 2012, primarily as a result of investments made in connection with customer retention marketing activities, the acquisition of BSM in January 2011, as well as the expansion of direct sales activities for our roadside assistance segment. We also incurred increased administrative and marketing expenses as a result of a television marketing campaign in connection with the launch of our home emergency services. Exceptional costs within administrative and marketing costs were £9.3 million in the year ended 31 January 2012, as compared to £6.2 million in the year ended 31 January 2011. The exceptional costs incurred in the year ended 31 January 2012 primarily related to redundancy costs with respect to our patrols and back office operations.

Other operating income

Our other operating income decreased by £0.4 million, or 14.3%, from £2.8 million in the year ended 31 January 2011 to £2.4 million in the year ended 31 January 2012. The decrease in other operating income was primarily due to reduced underwriting activities.

Share of profits in associates

Our share of profits in associates increased by £0.2 million, or 100%, from £0.2 million in the year ended 31 January 2011 to £0.4 million in the year ended 31 January 2012.

Net interest payable and similar charges

Our net interest payable and similar charges decreased by £55.2 million, or 61.1%, from £90.4 million in the year ended 31 January 2011 to £35.2 million in the year ended 31 January 2012. The decrease in net interest payable and similar charges was primarily due to the expiry of an interest rate swap contract in September 2010, which generated a significant payment in the year ended 31 January 2011 as a result of a decline in the London Interbank Offered Rate ("**LIBOR**"), which was the basis for establishing payments under that contract.

Taxation

Our taxation decreased by £6.5 million, or 8.6%, from £75.6 million in the year ended 31 January 2011 to £69.1 million in the year ended 31 January 2012. The decrease in taxation was primarily due to a reduction in the deferred tax charge for the year.

Trading EBITDA

Trading EBITDA is a non-UK GAAP measure and is not a substitute for any UK GAAP measure. We use this measure for many purposes in managing and directing our company.

Our Trading EBITDA decreased by £2.7 million, or 0.7%, from £370.8 million in the year ended 31 January 2011 to £368.1 million in the year ended 31 January 2012. As a percentage of Trading turnover, Trading EBITDA decreased from 39.3% in the year ended 31 January 2011 to 37.6% in the year ended 31 January 2012. The decrease was primarily driven by our insurance services and head office costs segments, as described below.

The table below sets forth, for each of the periods indicated, our Trading EBITDA by segment, both in pounds sterling and as a percentage of consolidated Trading EBITDA.

	Year ended 31 January			
	2011		2012	
	(£ in millions)	(in % of Trading EBITDA)	(£ in millions)	(in % of Trading EBITDA)
Roadside assistance[1]	294.4	79.4	298.9	81.2
Insurance services	92.4	24.9	87.3	23.7
Driving services[1]	14.0	3.8	15.1	4.1
AA Ireland	15.2	4.1	14.2	3.9
Insurance underwriting	2.4	0.6	2.0	0.5
Head office costs	(47.6)	(12.8)	(49.4)	(13.4)
Trading EBITDA	**370.8**	**100.0**	**368.1**	**100.0**

(1) During the six months ended 31 July 2013, the management responsibility for the Group's road sign business was transferred from Driving Services to Roadside Assistance. As a result the above analysis for the Roadside Assistance and Driving Services segments are not comparable to the analysis for the six months ended 31 July 2012 and 2013.

An analysis of our Trading EBITDA by segment is set forth below:

Roadside assistance: Our Trading EBITDA from roadside assistance increased by £4.5 million, or 1.5%, from £294.4 million in the year ended 31 January 2011 to £298.9 million in the year ended 31 January 2012. The increase in Trading EBITDA was driven by an increase in average income from personal members and from increased turnover from B2B customers, particularly from increased usage of roadside assistance services by our banking sector customers. These increases were partly offset by additional sales and marketing costs to support personal member retention and the expansion of direct sales activities. As a percentage of roadside assistance turnover, Trading EBITDA decreased from 47.0% in the year ended 31 January 2011 to 46.3% in the year ended 31 January 2012. The decrease in Trading EBITDA margin was primarily due to additional sales and marketing costs to support personal member retention.

Insurance services: Our Trading EBITDA from insurance services decreased by £5.1 million, or 5.5%, from £92.4 million in the year ended 31 January 2011 to £87.3 million in the year ended 31 January 2012. As a percentage of insurance services turnover, Trading EBITDA decreased from 54.2% in the year ended 31 January 2011 to 51.8% in the year ended 31 January 2012. The decrease in both Trading EBITDA and Trading EBITDA margin was primarily due to a decline

in turnover in connection with motor insurance services as a result of increased competition for higher premium customers by our insurance underwriting panel and from ongoing investments in the development of our home emergency services.

Driving services: Our Trading EBITDA from driving services increased by £1.1 million, or 7.9%, from £14.0 million in the year ended 31 January 2011 to £15.1 million in the year ended 31 January 2012. As a percentage of driving services turnover, Trading EBITDA decreased from 20.9% in the year ended 31 January 2011 to 15.6% in the year ended 31 January 2012. The increase in Trading EBITDA and the decrease in Trading EBITDA margin were primarily due to the acquisition of BSM in January 2011, which was less profitable than the other businesses within this segment. We also restructured our publishing activities in our media business and removed less profitable titles from our media business offerings during the year ended 31 January 2012, which had a positive impact on our profitability.

AA Ireland: Our Trading EBITDA from AA Ireland decreased by £1.0 million, or 6.6%, from £15.2 million in the year ended 31 January 2011 to £14.2 million in the year ended 31 January 2012. On a constant currency basis (calculated by applying a sterling to Euro exchange rate of 1.1691, determined by averaging the month end rates for each month in the year ended 31 January 2011 as published by the Financial Times, to AA Ireland euro denominated Trading EBITDA for the year ended 31 January 2012), our AA Ireland Trading EBITDA was £14.0 million in the year ended 31 January 2012. As a percentage of AA Ireland turnover, Trading EBITDA decreased from 35.8% in the year ended 31 January 2011 to 33.6% in the year ended 31 January 2012.

Insurance underwriting: Our Trading EBITDA from insurance underwriting decreased by £0.4 million, or 16.6%, from £2.4 million in the year ended 31 January 2011 to £2.0 million in the year ended 31 January 2012. The decrease in Trading EBITDA was primarily due to our decision to cease writing new reinsurance business in our insurance underwriting segment. As a percentage of insurance underwriting turnover, Trading EBITDA increased from 6.4% in the year ended 31 January 2011 to 7.8% in the year ended 31 January 2012. The increase in Trading EBITDA margin was driven by actual claims costs being lower than originally expected.

Head office costs: Our head office costs increased by £1.8 million, or 3.8%, from a total cost of £47.6 million in the year ended 31 January 2011 to a total cost of £49.4 million in the year ended 31 January 2012. The increase in head office costs was primarily due to wage inflation across the back-office functions.

Liquidity and Capital Resources

Historically, we have transferred all surplus cash to the Acromas Group treasury and funded the day-to-day requirements of our business by drawing on these cash reserves as necessary. To date, we have relied solely on operating cash flows to provide funds required for operations and have not needed to rely on intergroup or external borrowings.

Following the Refinancing, we no longer remit cash to the Acromas Group treasury and we now retain this cash within the Topco Restricted Group. Our primary sources of liquidity within the Topco Restricted Group following the Refinancing are cash from operations and borrowings under our £150.0 million Working Capital Facility and £220.0 million Liquidity Facility and other borrowings. Furthermore, our ability to generate cash from our operations will depend on our future operating performance, which is, in turn, dependent, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control.

Historically, we have been required to hold segregated funds as "restricted cash" in order to satisfy regulatory requirements governing our insurance underwriting business and Irish subsidiaries. In particular, the Topco Restricted Group contains two authorised insurers, Automobile Association Underwriting Services Limited ("**AAUSL**") and AA Underwriting Limited ("**AAUL**"). However, AAUL ceased underwriting insurance policies in 1998 and has no reserves as at 31 July 2013. AAUSL ceased underwriting activities in 2009 and had reserves of £0.3 million as at 31 July 2013. We transferred the entire share capital of ARCL from TAAL to the Company on 26 June 2013. In addition, in the future, we may conduct underwriting activities through AAG, formerly known as Automobile Association Insurance Company Limited, and reinsure those policies through ARCL. On 24 October 2013, Acromas Bid Co Limited transferred all the share capital and assets of AAG to the Company. Under the terms of our financing arrangement, we may prepare and present future consolidated financial statements for an AA Group entity other than the Company. As a result of the transfer described above, the results of operations of ARCL will not be reflected in any of the Company's subsidiaries' results of operations or reported on going forward. Furthermore, AAG has not historically been, and will not in the future, be reflected in any of the Company's subsidiaries' results of operations. Historically, ARCL made up the entirety of our insurance underwriting segment in our results of operations.

Cash Flows

The following table sets forth the principal components of our cash flows for the years ended 31 January 2011, 2012 and 2013 and for the six months ended 31 July 2012 and 2013.

	Year ended 31 January			Six months ended 31 July	
	2011	2012	2013	2012	2013
	(£ in millions)				
Operating profit	285.6	216.8	229.4	116.7	122.7
Amortisation of goodwill	92.6	92.9	93.0	46.4	46.5
Depreciation of tangible fixed assets	30.0	36.7	37.9	19.0	19.4
Pension curtailment gain	(46.2)	—	—	—	—
Less other operating income	(2.8)	(2.4)	(1.4)	(1.0)	—
Less share of profits in associates	(0.2)	(0.4)	(0.7)	—	—
Change in working capital	56.7	(12.3)	(4.3)	(8.3)	25.3
Net cash flow from operating activities	**415.7**	**331.3**	**353.9**	**172.8**	**213.9**
Returns on investments and servicing of finance	**(64.1)[1]**	**(3.1)**	**(3.8)**	**(1.4)**	**(5.6)**
Taxation	**(49.3)**	**(60.8)**	**(56.1)**	**(0.4)**	**(7.4)**
Capital expenditure and financial investment					
Purchase of tangible assets	(28.0)	(26.6)	(21.9)	(10.4)	(11.6)
Acquisitions and disposals	**(4.7)**	**(3.0)**	**(6.2)**	**2.5**	**—**
Equity dividends paid[2]	—	—	—	—	(2,284.2)
Net cash inflow before financing	**269.6**	**237.8**	**265.9**	**163.1**	**(2,094.9)**
Net proceeds from the Refinancing[2]	—	—	—	—	2,981.7
Repayment of amounts owed to parent undertaking[2]	—	—	—	—	(718.3)
Repayment of capital element of finance lease agreements	(19.3)	(18.2)	(12.0)	(8.2)	(11.0)
Payments to group treasury[2]	(250.0)	(248.9)	(270.9)	(154.4)	(82.2)
Financing	**(269.3)**	**(267.1)**	**(282.9)**	**(162.6)**	**2,170.2**
Overall (decrease)/increase in cash	**0.3**	**(29.3)**	**(17.0)**	**0.5**	**75.3**

(1) The higher debt service costs in 2011 relate to payments under an interest rate swap arrangement that ended that same year.

(2) Net proceeds from the Refinancing represents the proceeds raised in connection with the Refinancing (excluding the Issuance of the Additional Class A Notes), less expenses incurred in connection with the Refinancing (excluding expenses incurred in connection with the Issuance of the Additional Class A Notes). The net proceeds from the Refinancing were used to partially repay the Existing Senior Facility Agreement and fully repay the Former Mezzanine Facility Agreement, through a combination of equity dividends paid and the repayment of amounts owed to parent undertaking. Additionally all the cash in excess of £10 million within the Topco Restricted Group was paid to Acromas Group treasury.

Change in Working Capital

Our change in working capital was negative £8.3 million in the six months ended 31 July 2012 compared to positive £25.3 million in the six months ended 31 July 2013. This change in working capital in the six months ended 31 July 2013 was primarily due to timing differences relating to the receipt of payments from Business Services debtors and trade creditor payments.

Our change in working capital was negative £12.3 million in the year ended 31 January 2012 compared to negative £4.3 million in the year ended 31 January 2013. These adverse movements were driven by the differences between the provision for pension related charges and cash contributions made to the AA UK Pension Scheme and AA Ireland Pension Scheme, including planned deficit reduction payments. Excluding these amounts, the change in working capital was positive £0.2 million in the year ended 31 January 2012 compared to positive £2.3 million in the year ended 31 January 2013. This favourable change in working capital was primarily due to the growth in Roadside Assistance turnover from members, partly offset by the increased working capital requirements of our Home Emergency business.

Our change in working capital was positive £56.7 million in the year ended 31 January 2011 compared to negative £12.3 million in the year ended 31 January 2012. During the year ended 31 January 2011 we experienced a one-off working capital improvement recognised in connection with a change in payment terms with the underwriters who support our insurance broking business from the time of inception of a policy, to after customers paid us (“pay-as-paid”) their relevant monthly premium instalment for their policy. This shift in payment terms allowed us to retain cash from operating activities and only make payment to underwriters upon receipt of a corresponding payment from customers.

Net Cash Flow from Operating Activities

Net cash flow from operating activities increased by £41.1 million from a cash inflow of £172.8 million in the six months ended 31 July 2012 to a cash inflow of £213.9 million in the six months ended 31 July 2013. The increase in net cash flow from operating activities was primarily due to the improvement in working capital described above, combined with the underlying increase in business profitability in connection with our roadside assistance and insurance segments.

Net cash flow from operating activities increased by £22.6 million from a cash inflow of £331.3 million in the year ended 31 January 2012 compared to a cash inflow of £353.9 million in the year ended 31 January 2013. The increase in net cash flow from operating activities was primarily due to the underlying increase in business profitability in connection with our roadside assistance segment.

Net cash flow from operating activities decreased by £84.4 million from a cash inflow of £415.7 million in the year ended 31 January 2011 to a cash inflow of £331.3 million in the year ended 31 January 2012. The decrease in net cash flow from operating activities in the year ended 31 January 2012 was primarily due to the one-off working capital improvement during the year ended 31 January 2011.

Returns on Investments and Servicing of Finance

Our cash outflow from returns on investments and servicing of finance was £1.4 million in the six months ended 31 July 2012 compared to £5.6 million in the six months ended 31 July 2013. The increase in cash outflow from investments and servicing of finance was primarily due to higher interest payments as a result of the Refinancing.

Our cash outflow from returns on investments and servicing of finance was £3.1 million in the year ended 31 January 2012 compared to £3.8 million in the year ended 31 January 2013. The increase in cash outflow from investments and servicing of finance was primarily due to higher interest rates on finance leases in the year ended 31 January 2013.

Our cash outflow from returns on investments and servicing of finance was £64.1 million in the year ended 31 January 2011 compared to a cash outflow of £3.1 million in the year ended 31 January 2012. The decrease in cash outflow from returns on investments and servicing of finance was primarily due to the expiry of an old interest rate swap contract in September 2010, which generated a significant payment in the year ended 31 January 2011 as a result of a decline in LIBOR, which was the basis for establishing payments under that contract.

Taxation

Our cash outflow from taxation was £0.4 million in the six months ended 31 July 2012 compared to £7.4 million in the six months ended 31 July 2013. The increase in cash outflow from taxation was due to a payment made for corporation tax due in connection with the year ended 31 January 2013 via certain inter group arrangements between the AA Group, the Acromas Group and the Saga Group, which were modified to comply with the requirements of the Tax Deed of Covenant entered into as part of the Refinancing. See "*Summary—The Refinancing*."

Our cash outflow from taxation was £60.8 million in the year ended 31 January 2012 compared to £56.1 million in the year ended 31 January 2013. The decrease in cash outflow from taxation was primarily due to a payment made for corporation tax in the year ended 31 January 2012 via certain inter group arrangements between the AA Group, the Acromas Group and the Saga Group, which were modified following the Separation. See "*Summary—Recent Developments—The Separation*."

Our cash outflow from taxation was £49.3 million in the year ended 31 January 2011 compared to £60.8 million in the year ended 31 January 2012. The increase in cash outflow from taxation was primarily due to an increase in taxable profits for the year ended 31 January 2011 paid via certain intergroup arrangements between the AA Group, the Acromas Group and the Saga Group, which were modified following the Separation. See "*Summary—Recent Developments—The Separation*."

Capital Expenditure and Financial Investment

Our cash outflow from capital expenditure and financial investment was £10.4 million in the six months ended 31 July 2012 compared to £11.6 million in the six months ended 31 July 2013. The increase in cash outflow from capital expenditure and financial investment was primarily due to the increased investment in our IT systems, particularly focused on increasing the level of system automation to permit further efficiency savings to be realised.

Our cash outflow from capital expenditure and financial investment was £26.6 million in the year ended 31 January 2012 compared to £21.9 million in the year ended 31 January 2013. The decrease in cash outflow from capital expenditure and financial investment was primarily due to the completion of our investment in our policy administration systems during the year ended 31 January 2012, as well as the partial deferral of the replacement of patrol vehicles.

Our cash outflow from capital expenditure and financial investment was £28.0 million in the year ended 31 January 2011 compared to £26.6 million in the year ended 31 January 2012. The decrease in cash outflow from capital expenditure and financial investment was primarily due to an increased investment in our policy administration systems during the year ended 31 January 2011.

Acquisitions and Disposals

Our net cash inflow from acquisitions and disposals was £2.5 million in the six months ended 31 July 2012 compared to cash outflows from acquisitions and disposals of nil in the six months ended 31 July 2013. The cash inflow in the six months ended 31 July 2012 was primarily due to the receipt of deferred proceeds from the disposal of the Group's joint venture (AA Personal Finance) in the year ended 31 January 2010.

Our cash outflows from acquisitions and disposals was £3.0 million in the year ended 31 January 2012 compared to £6.2 million in the year ended 31 January 2013. The increased cash outflow from acquisitions and disposals was primarily due to deferred consideration for the purchase of AA DriveTech in June 2009 and Intelligent Data Systems (UK) Limited ("**IDS**") in August 2011 (both part of our driving services segment), coming due in September 2012.

Our cash outflows from acquisitions and disposals was £4.7 million in the year ended 31 January 2011 compared to £3.0 million in the year ended 31 January 2012. The decreased cash outflow from acquisitions and disposals was primarily due to the deferred consideration for the acquisition of AA Autowindshields in December 2009, which came due in December 2010.

Equity Dividends Paid

Our cash outflow from equity dividends was nil in the six months ended 31 July 2012 compared to £2,284.2 million in the six months ended 31 July 2013. The increase in cash outflow was entirely due to the Refinancing. See "*Summary—The Refinancing*."

Net Proceeds from the Refinancing

Our cash inflow from net proceeds from the Refinancing was nil in the six months ended 31 July 2012 compared to £2,981.7 million in the six months ended 31 July 2013. The increase in cash inflow was entirely due to the Refinancing. See "*Summary—The Refinancing*."

Repayment of Amounts Owed to Parent Undertaking

Our cash outflow from repayment of amounts owed to parent undertaking was nil in the six months ended 31 July 2012 compared to £718.3 million in the six months ended 31 July 2013. The increase in cash outflow was entirely due to the Refinancing. See "*Summary—The Refinancing*."

Repayment of Capital Element of Finance Lease Agreements

Our cash outflow from repayment of capital element of finance lease agreements was £8.2 million in the six months ended 31 July 2012 compared to £11.0 million in the six months ended 31 July 2013. The increase in cash outflow was primarily due to certain finance lease payments being delayed from the final months of the year ended 31 January 2013 into the six months ended 31 July 2013.

Our cash outflow from repayment of capital element of finance lease agreements was £18.2 million in the year ended 31 January 2012 compared to £12.0 million in the year ended 31 January 2013. The decrease in cash outflow from financing was primarily due to the partial deferral of the replacement of patrol vehicles into the following year due to our key supplier's withdrawal from the leasing market during the year ended 31 January 2013. We paid a fee to our previous vehicle provider to extend the vehicle lease term until we could find an alternative provider.

Our cash outflow from repayment of capital element of finance lease agreements was £19.3 million in the year ended 31 January 2011 compared to £18.2 million in the year ended 31 January 2012. The decrease in cash outflow from financing was primarily attributable to finance lease agreements to finance our fleet of patrol vehicles, which are replaced on a four year cycle, with fewer vehicles being replaced every fourth year.

Payments to Group Treasury

Our cash outflow from payments to the Acromas Group treasury was £154.4 million in the six months ended 31 July 2012 compared to £82.2 million in the six months ended 31 July 2013. The decrease in cash outflow from payments to Acromas Group treasury was primarily due to the cessation of payments to Acromas Group treasury as a result of the Refinancing and Separation, combined with the final payment to Acromas being structured as part of a final dividend payment rather than a cash sweep.

Our cash outflow from payments to the Acromas Group treasury was £248.9 million in the year ended 31 January 2012 compared to £270.9 million in the year ended 31 January 2013. The increase in cash outflow from payments to the Acromas Group treasury was primarily due to increased levels of cash generated within the business.

Our cash outflow from payments to the Acromas Group treasury was £250.0 million in the year ended 31 January 2011 compared to £248.9 million in the year ended 31 January 2012.

Capital Expenditure

The majority of our non-financed capital expenditure is attributable to the development and upgrade of our IT and communications systems. The other significant element of our capital expenditure is attributable to finance lease agreements to finance our fleet of patrol vehicles. Substantially all our vehicles are leased and we currently replace both purchased and leased vehicles on a four year cycle. During each four year cycle, the number of vehicles purchased or leased in the first three years tends to remain relatively consistent, with a lower replacement requirement occurring in the fourth year.

We classify our capital expenditure in the following categories:

- *IT Development*: Investment in IT infrastructure such as servers, storage equipment and other physical assets that support delivery of our IT requirements, systems development and enhancement for customer administration systems, deployment and claims systems, e-commerce and website development activities;

- *Operational Vehicles*: Vans for patrols, flat-bed trucks for our vehicle recovery operations, home emergency and glass engineer vehicles and dedicated vehicles for specialist services such as fuel assist, key assist, battery assist, motorbikes and special operations vehicles;

- *Other*: Investments in other corporate and other operational development projects, including moving and refurbishing offices, tooling and equipment as well as certain other investments.

During the periods under review, we funded certain of our capital expenditure requirements though finance leases. Capital expenditure in tangible and intangible assets has fluctuated on a quarterly basis during the periods under review. This fluctuation is due largely to the timing of the replacement cycle of our patrol vehicles and IT development release dates. The table below sets forth our capital expenditure for the years ended 31 January 2011, 2012 and 2013. We expect to spend approximately £38 million for capital expenditure in the year ending 31 January 2014, of which approximately £10 million we expect to fund through our finance lease arrangements. Capital expenditure for the year ending 31 January 2015 will be higher as we will be due to replace more vehicles in that year.

	Year ended 31 January			Six months ended 31 July	
	2011	**2012**	**2013**	**2012**	**2013**
			(£ in millions)		
IT development	23.0	22.4	20.4	10.5	11.0
Operational vehicles	25.4	19.3	10.6	3.1	1.4
Other	2.6	4.6	0.8	0.0	0.7
Total capital expenditure	**51.0**	**46.3**	**31.8**	**13.6**	**13.1**
of which funded by finance leasing	*(23.0)*	*(19.7)*	*(9.9)*	*(3.2)*	*(1.5)*
Capital expenditure (after finance lease funding)	**28.0**	**26.6**	**21.9**	**10.4**	**11.6**

Six Months Ended 31 July 2013 Compared to the Six Months Ended 31 July 2012

In the six months ended 31 July 2013, total capital expenditure decreased by £0.5 million, or 3.7%, from £13.6 million to £13.1 million, of which £1.5 million was financed with funds available under our leasing facility compared to £3.2 million in the six months ended 31 July 2012. The decrease was mainly due to a lower volume of our patrol vehicles being due for planned replacement under our four year replacement cycle.

Year Ended 31 January 2012 Compared to the Year Ended 31 January 2013

In the year ended 31 January 2013, total capital expenditure decreased by £14.5 million, or 31.3%, from £46.3 million to £31.8 million, of which £9.9 million was financed with funds available under our leasing facility compared to £19.7 million in the year ended 31 January 2012. The decrease in total capital expenditure was mainly due to the completion of our investment in new transactional systems across the roadside assistance and insurance segments, combined with a delay in replacing certain patrol vehicles. Total capital expenditure also decreased due to a reduction in our recovery vehicle fleet, as a result of efficiency improvements in our roadside operations.

Year Ended 31 January 2011 Compared to the Year Ended 31 January 2012

In the year ended 31 January 2012, total capital expenditure decreased by £4.7 million, or 9.2%, from £51.0 million to £46.3 million, of which £19.7 million was financed with funds available under our leasing facility compared to £23.0 million in the year ended 31 January 2011. The decrease in total capital expenditure was attributable to finance lease agreements to finance our fleet of patrol vehicles, which are replaced on a four year cycle. We experienced a decrease in total capital expenditure as the number of vehicles due to be replaced in 2011 was higher than the number of vehicles due to be replaced in 2012.

Working Capital

We have favourable working capital dynamics and high cash conversion ratios as the majority of our personal members pay for services in advance and the majority of our suppliers are paid after the provision of goods and services. Our cash growth rate and rate of cash conversion (defined as available cash inflow from operating activities as a percentage of Trading EBITDA) depend on our ability to maintain this low working capital balance.

Cash generated in connection with our insurance underwriting business must be segregated from the AA Group's accounts for regulatory reasons and it is therefore disclosed separately, although the amounts involved are small in relation to the rest of the AA Group.

Historically, we were required to remit all surplus cash to the Acromas Group treasury on a daily basis. This has generated a large debtor balance of £1,372.7 million as of 31 January 2013, which is disclosed as amounts owed by group undertakings on our balance sheet; however this balance was novated in connection with the Refinancing. Following the Refinancing and Separation, we ceased to remit surplus cash to the Acromas Group.

Long-Term Indebtedness After Giving Effect to the Refinancing

Our primary sources of liquidity within the Topco Restricted Group following the Refinancing are cash from operations and future borrowings under our £150.0 million Working Capital Facility and £220.0 million Liquidity Facility, neither of which were drawn as of 24 October 2013. On a *pro forma* basis after giving effect to the issuance of the Additional Class A Notes, our total financial indebtedness, excluding finance leases would have been £3,043.0 million and as of 31 July 2013, the principal payments on our material long-term financing arrangements would have been as follows:

	Payment on Material Long-Term Indebtedness Due by Period		
	2018	**2019**	**2025**
		(£ in millions)	
Senior Term Facility[1]	1,413.0	—	—
Working Capital[2]	—	—	—
Liquidity Facility[3]	—	—	—
Class A1 Notes[1]	475.0	—	—
Class A2 Notes[4]	—	—	500.0
Class B Notes[5]	—	655.0	—
Total	**1,888.0**	**655.0**	**500.0**

(1) The maturity date of the Senior Term Facility is 31 July 2018 and the expected maturity date of the Class A1 Notes is 31 July 2018, although the final maturity date is 2 July 2043.

(2) The maturity date of the Working Capital Facility is 31 July 2018. The table above does not include the £150 million available under the Working Capital Facility, as it was undrawn as of 24 October 2013.

(3) The maturity of the Liquidity Facility is 364 days from the date of execution.

(4) The expected maturity date of the Class A2 Notes is 31 July 2025, although the final maturity date is 2 July 2043.

(5) The expected maturity date of the Class B Notes is 31 July 2019, although the final maturity date is 31 July 2043.

Finance Leases

Our finance lease liabilities include lease agreements for commercial vehicles, as well as for plant and machinery. Substantially all of our commercial vehicles, including patrol vehicles, are leased pursuant to Commercial Vehicle Master Contract Hire Agreements ("**Vehicle Master Contracts**") between the Company and our contractual counterparties. Each

patrol vehicle is individually leased for a four year term pursuant to a separate form contract, attached to the relevant Vehicle Master Contracts, in which we pay a certain fee for each vehicle per annum during the duration of each contract. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities on the balance sheet. In addition, we have certain additional ordinary course of business contracts and commitments for supply goods, such as fuel contracts, which are not included in the discussion below. The table below sets forth the financial payments that we will be obligated to make under our finance leases as of 31 July 2013.

	As of 31 July 2013		
	Total	Due within 1 year	Due between 1 and 5 years
	(£ in millions)		
Commercial vehicles	27.6	15.7	11.9
Plant and machinery	3.8	2.1	1.7
Total	**31.4**	**17.8**	**13.6**

Lease Arrangements

We lease our office space and certain facilities (including call centres) pursuant to non-cancellable operating leases. We also lease approximately 90 vacant properties, including former service centre sites under non-cancellable operating leases. To offset costs incurred in connection with vacant property leases, we sublet properties where possible. In addition, we lease all driving school vehicles in connection with our AA Driving School and BSM driving school under operating leases. Pursuant to the terms of our vehicle operating leases, we receive new vehicles approximately every eight months and used vehicles are returned to the respective lessor dealer network.

The following table sets forth the annual irrevocable operating lease payments we are obligated to make as of 31 January 2013.

	As of 31 January 2013			
	Total	Due within 1 year	Due between 1 and 5 years	Due after 5 years
	(£ in millions)			
Annual operating lease payments (offices)	3.4	0.4	0.4	2.6
Vacant property leases	8.9	2.2	5.2	1.5
Driving school vehicle leases	3.0	3.0	—	—
Company car leases	1.1	0.3	0.8	—
Total	**16.4**	**5.9**	**6.4**	**4.1**

Other than the items disclosed in the table above, we are not party to any other off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition or results of operations.

Other Financial Obligations

Pension Obligations

The AA Group operates two defined benefit pension schemes: (i) the AA UK Pension Scheme and (ii) the AA Ireland Pension Scheme. The AA UK Pension Scheme is the largest scheme operated by the AA Group and according to the last actuarial valuation, which was carried out as at 31 March 2010, the AA UK Pension Scheme had a funding deficit of approximately £87 million.

In addition, we operate the AAPMP to provide private healthcare cover to retired AA pensioners and their dependents. This scheme is unfunded and as of 31 July 2013 showed a liability of £49.2 million (before related deferred tax assets). This liability could materially increase depending on, among other factors, the longevity of scheme participants, material changes in claims behaviour and the rate of inflation in the costs of providing these healthcare benefits.

The following table sets forth pension costs and other post-retirement benefits under each of the AA UK Pension Scheme, AA Ireland Pension Scheme and the AAPMP as of 31 July 2013 under UK GAAP.

	As of 31 July 2013			
	AA UK Pension Scheme	AA Ireland Pension Scheme	AAPMP	Total
	(£ in millions)			
Fair value of scheme assets	1,541.1	37.0	—	1,578.1
Present value of defined benefit obligation	(1,699.9)	(57.1)	(49.2)	(1,806.2)
Defined benefit scheme liability	(158.8)	(20.1)	(49.2)	(228.1)
Related deferred tax asset	33.3	2.5	4.8	40.6
Liability recognised in balance sheet	**(125.5)**	**(17.6)**	**(44.4)**	**(187.5)**

The 2013 Valuation is currently being conducted for the AA UK Pension Scheme. See "*Business—Employees and Pension Obligations*." We estimate that the funding deficit with respect to the AA UK Pension Scheme as at 31 March 2013, was approximately £200 million, which is slightly higher than our prior estimate of approximately £180 million, which was made at the time of the Refinancing. However, the funding deficit for the purposes of the final 2013 Valuation will depend on the assumptions we agree with the AA UK Pension Trustee, which are not yet final. For further information see "*Summary—Recent Developments—AA Pension Schemes*."

As at 31 July 2013 our defined benefit pension liabilities totalled £187.5 million compared to £135.9 million as at 31 January 2013 and £99.7 million as at 31 July 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. There can be no assurance that the funding deficit will not increase significantly in the future as a result of further reductions in the corporate bond yield used in connection with determining the present value of our future pension liabilities.

Deferred Liabilities

We consider opportunistic strategic transactions from time to time, which could involve acquisitions or dispositions of business or assets and deferred consideration. In connection with our driving services segment, we acquired AA DriveTech in June 2009, IDS in August 2011, Nationwide 4x4 Ltd. ("**Nationwide**") in January 2011 and Peak Performance Management Limited ("**Peak Performance**") in October 2012. As of 31 January 2013, £0.4 million, £3.1 million and £1.0 million in deferred consideration remained outstanding with respect to Peak Performance, IDS and AA DriveTech, respectively, which amounts are due in full by October 2013, October 2014 and September 2015, respectively. We have made all payments due in connection with our acquisition of Nationwide.

The following table sets forth the estimated deferred consideration payments we are obligated to make as of 31 January 2013.

	As of 31 January 2013			
	Total	**Due within 1 year**	**Due between 1 and 2 years**	**Due after 2 years**
	(£ in millions)			
Peak Performance[1]	0.4	0.4	—	—
IDS[2]	3.1	1.2	1.8	—
AA Drive Tech	1.0	—	—	1.0
Total	**4.5**	**1.6**	**1.8**	**1.0**

(1) The deferred consideration in the amount of £0.4 million relating to the acquisition of Peak Performance was paid in full in October 2013.

(2) The instalment of deferred consideration relating to the acquisition of IDS calculated based on the results of operations of IDS for the year ended 31 January 2013 in the amount of £1.3 million was paid in September 2013. The amount paid in September was £0.1 million greater than the amount expected at year end due to strong performance by IDS during the fiscal year.

Quantitative and Qualitative Disclosures about Financial Risk

Market risk represents the risk of loss that may result from the potential change in exchange rates, interest levels, refinancing and credit risks. To the extent we believe these risks are material, they are discussed below.

Liquidity Risk

Our liquidity risk primarily concerns our ability to meet our obligations to pay our employees and suppliers and to service our debts. The AA Group treasury policy stipulates the maximum levels of illiquid assets that we may invest in to ensure funding of our operating activities. We prepare both monthly cash flow forecasts and a rolling eight week daily cash flow forecast, which are subject to regular review to ensure that we have sufficient headroom at all times. Our low working capital dynamics have a positive effect on our liquidity.

Following the Refinancing, we no longer remit cash to the Acromas Group treasury and we now retain this cash within the Topco Restricted Group. See "*Summary—Recent Developments—The Separation*." Our primary sources of liquidity within the Topco Restricted Group following the Refinancing are cash from operations and borrowings under our £150.0 million Working Capital Facility and £220.0 million Liquidity Facility and other borrowings. Furthermore, our ability to generate cash from our operations will depend on our future operating performance, which is, in turn, dependent, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control.

Interest Rate Risks

Our interest rate risk is mainly affected by our overall financing arrangements, which include both fixed and floating interest rates. Interest fixing periods are a significant factor influencing interest risk. Longer interest fixing periods primarily affect price risk, while shorter interest fixing periods affect cash flow risk.

To mitigate our exposure to interest rate risk from the incurrence of Relevant Debt, we have entered into derivative transactions. We have hedged all our floating rate debt (excluding the Working Capital Facility and the Liquidity Facility) for a period of five years in connection with the Refinancing. We intend to refinance our Senior Term Facility in the capital markets, as our Senior Term Facility contains financial maintenance covenants and periodic margin step-ups. Our interest expense will increase if, at the time when we refinance our Senior Term Facility, interest rates have increased above their current levels, although for the first five years interest costs with respect to the Senior Team Facility will be wholly or partly mitigated by the interest rate swaps we intend to put in place. We expect such increased costs to be offset by increases in our Trading EBITDA as we implement our business strategies.

The table below provides information about our long-term fixed and floating rate debt (excluding capital leases) as of 31 July 2013, based on the outstanding principal amounts as of that date and giving pro forma effect to the issuance of the Additional Class A Notes and the application of proceeds thereof.

	As of 31 July 2013
	(£ in millions)
Fixed rate debt[1]	1,630.0
Floating rate debt[2]	1,413.0
Total outstanding principal amount	**3,043.0**

(1) The amount shown reflects the aggregate principal amount of the Class A Notes and Class B Notes.

(2) The amount shown reflects the Senior Term Facility, but excludes the Working Capital Facility and Liquidity Facility, as they were undrawn as of the date of this Report.

Pension Risks

Pension risk is the risk that our cash flow is negatively affected by additional cash contributions required to fund shortfalls in the funding arrangements for our pension schemes. We operate two defined benefit pension schemes: (i) the AA UK Pension Scheme and (ii) the AA Ireland Pension Scheme. In addition, we operate the AAPMP, which is not open to new entrants. The 2013 Valuation is currently being conducted for the AA UK Pension Scheme. We estimate that the funding deficit with respect to the AA UK Pension Scheme as at 31 March 2013, was approximately £200 million, which is slightly higher than our prior estimate of approximately £180 million, which was made at the time of the Refinancing. However, the funding deficit for the purposes of the final 2013 Valuation will depend on the assumptions we agree with the AA UK Pension Trustee, which are not yet final. In light of the increased deficit in the context of the 2013 Valuation, we intend to implement the ABF, which will provide the AA UK Pension Scheme with an inflation-linked income stream over 25 years (with the first annual payment expected to be in the region of £12 million), which is intended to address the funding deficit that will be disclosed in the 2013 Valuation. The AA UK Pension Trustee's existing security will be released and replaced with first-ranking security (through the ABF structure) over our brands up to a value of £200 million. A non-binding term sheet setting out the terms of the ABF was previously agreed with the AA UK Pension Trustee and appended to the otherwise binding AA UK Pension Agreement. The documents required to implement the ABF are currently being negotiated and we intend to implement the ABF in conjunction with the 2013 Valuation documents.

If the ABF is not agreed and implemented, (i) the AA UK Pension Trustee's first ranking super senior security over assets from the Obligors up to a value of £150 million will remain in place; and (ii) the AA UK Pension Trustee may require higher deficit payments to be paid to the AA UK Pension Scheme over a shorter period than a 25 year term, which could adversely impact our business, financial condition and results of operations. There can be no assurance that the funding deficit with respect to the AA UK Pension Scheme will not increase in the future whether or not the ABF is implemented, which may result in materially higher payments to the AA UK Pension Scheme being required to address such increased deficit.

Gilt yields and investment returns are significant factors impacting pension risk. Our pension liabilities are discounted based on gilt yields over the duration of the liabilities. If gilt yields reduce by more than the market expected at the previous scheme valuation, the liabilities, the deficit and annual payments thereunder may materially increase. We are required to fund any deficit over a number of years. If gilt yields increase then the pension scheme liabilities reduce and the likelihood of a scheme surplus emerging increases. This surplus will only be released to us over a number of years. We estimate that if gilt yields increase by 1% in excess of current market expectations over the next five years, our funding deficit would decrease by approximately £160 million. Conversely, if gilt yields were to decrease by the same amount, our funding deficit would increase by approximately £215 million.

Our pension schemes invest contributions in a number of different asset classes, the returns from which are used to reduce our contribution rates. If these investments do not perform as expected the required funding rate may change significantly.

Currency Risks

Currency risk is the risk that our income statement, cash flow statement and balance sheet are negatively affected by fluctuations in exchange rates.

Transaction Exposure-Operational Flows

For the year ended 31 January 2013, approximately 96% of our turnover was denominated in pounds sterling, as were the majority of our expenses. However, a portion of both our income and expenses are denominated in EUR due to our operations in Ireland and Lyon for European roadside assistance coverage. As the overall EUR expenses are exceeded by the EUR income, we do not consider it necessary to enter into any additional hedging to reduce currency risk, due to the natural hedge between EUR denominated income and expenses.

EUR denominated transactions are translated into pounds sterling at the exchange rate ruling at the date of the transaction. A 5% depreciation of pound sterling against the EUR would have resulted in a reduction of approximately £0.6 million in Trading EBITDA for the year ended 31 January 2013.

Commodity Risk

Our principal risk with respect to commodity prices is with respect to the cost of vehicle fuel. Total fuel costs are approximately £21 million per annum, of which approximately £8 million relates to the underlying fuel costs before duty, VAT and distribution costs. Our policy is to hedge approximately 70% of the underlying exposure to fuel costs one year in advance by entering into diesel swaps. We currently have swaps for 14.5 million litres of diesel, with an average diesel swap price of 45.53 pence per litre maturing over the sixteen month period ending 31 January 2015.

Credit Risk

Our exposure to credit risk is limited because the substantial majority of our income is generated from individual personal members paying small amounts in advance of receiving services. As such, if a personal member does not pay, we do not provide services. Credit risk associated with customers is managed through our professional team of debt collectors, who target recovering all significant balances, in line with our credit terms.

Insurance Underwriting Risk

This Report presents the audited consolidated financial information of the Company and its subsidiaries as of and for the years ended 31 January 2011, 2012 and 2013, which include the results of operations for our principal insurance underwriting entity, ARCL. In addition, in the future, we may conduct underwriting activities through AAG, formerly known as Automobile Association Insurance Company Limited, and reinsure those policies through ARCL. Should we commence underwriting through either ARCL or AAG, an amount of up to £40 million can be released from the Topco Restricted Group to provide technical reserves to cover the cost of future claims payments and related administrative expenses. Our technical reserves may prove to be inadequate to cover actual claims costs and we will have to increase our technical reserves and incur a corresponding reduction in earnings/net income in the period in which the deficiency is identified or obtain additional funding from alternative sources to continue any underwriting activities. See "*Risk Factors—Our technical reserves may not adequately cover actual claims due to the uncertain nature and timing of the risks that we may incur in underwriting insurance products*."

On 24 October 2013, Acromas Bid Co Limited transferred all the share capital and assets of AAG to the Company. Under the terms of our financing arrangements, we may prepare and present future consolidated financial statements for an AA Group entity other than the Company. As a result of the transfer described above, the results of operations of ARCL will not be reflected in any of the Company's subsidiaries' results of operations or reported on going forward. Furthermore, AAG has not historically been, and will not in the future, be reflected in any of the Company's subsidiaries' results of operations. Historically, ARCL made up the entirety of our insurance underwriting segment in our results of operations. In addition, the Topco Restricted Group contains two other authorised insurers, AAUSL and AAUL. However, AAUL ceased underwriting insurance policies in 1998 and has no reserves as at 31 July 2013. AAUSL ceased underwriting activities in 2009 and had reserves of £0.3 million as at 31 July 2013.

Critical Accounting Policies

Our financial statements have been prepared in accordance with UK GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Management continually evaluates its estimates and assumptions and bases its estimates and assumptions on historical experience and other factors, including expectations of future events that it believes are reasonable under the circumstances. Actual results may differ from these estimates, and such differences may be material. See "*Note 1c*" to our audited consolidated financial statements as of and for the period 1 February 2012 to 31 January 2013 included on our website. See "*—Turnover Recognition*."

Turnover Recognition

Turnover in connection with roadside membership subscriptions is apportioned on a time basis over the period where the Group is liable for risk cover. The unrecognised element of subscriptions relating to future periods is held within creditors as deferred income. Within insurance services, commission income from insurers external to the AA 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.

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 we determine that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

Pension benefits

For defined benefit schemes, including the AA UK Pension Scheme, 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) are funded, with assets of the schemes held separately from those of the AA 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. Determination of value and all other calculations referred to above are based on management estimates and are subject to change.

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

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 useful economic life of goodwill has been estimated to be 20 years. We review the appropriateness of the useful economic life of goodwill with respect to acquired entities at the end of each year and revise the useful economic life of goodwill if necessary based on their estimates.

Additionally, we 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.

Provisions for liabilities

A provision for liabilities is recognised when the AA 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 for liabilities is made on a discounted basis where the time value of money is expected to be material. Such determinations require estimates to be made by management and are subject to change.

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 AA 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. Determining an asset's useful life, the interest elements and other aspects of leased assets and hire purchase commitments require management to make various estimates and assumptions.

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. The useful economic lives of certain tangible fixed assets are as follows:

	Useful economic life
	(years)
Buildings, properties and related fixtures	
Buildings	50
Related Fittings	3-20
Leasehold properties	—(1)
IT Systems	3-5
Plant, vehicles and other equipment	3-10

(1) The useful economic life of leasehold properties is determined by the period of the respective lease.

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

Changes to Accounting Policies

Our accounting policies are subject to change from time to time. However, we have not changed our accounting policies in recent years and we are not aware of any pending changes except as described above.

INDUSTRY

UK Roadside Assistance Market

Overview

The majority of roadside assistance service in the United Kingdom is provided through two principal channels: the B2C model, whereby customers subscribe for roadside assistance cover directly through a membership agreement with the applicable roadside assistance provider, and the B2B model, whereby customers receive roadside assistance cover indirectly as an "add-on" or complementary service to the products they purchase from another business. According to industry sources, the total UK vehicle recovery service market generated approximately £1.5 billion as of December 2011, covering approximately 29 million policies. The number of policies in force has remained broadly stable since 2006, as customers have demonstrated a propensity to retain their roadside membership even through the economic downturn. The market for ad-hoc, pay-as-you-use customers is much smaller and covered by independent garages, which are contracted at the point of breakdown.

Operating Model

The three largest roadside assistance providers in the United Kingdom, based on market share, are the AA, the RAC and Green Flag. Together, these companies accounted for approximately 82% and 79% of the B2C and B2B market, respectively, as of June 2012. The AA and the RAC primarily operate a nationwide branded patrol network or "branded model," typically restricting use of third-party garage networks to peak times and in remote areas. This model differs from that of smaller providers, including Green Flag, which employ a contractor-based model. In contrast to the contractor-based model, the branded model provides for direct interaction with the customer through roadside assistance mechanics, who act as the "face of the brand", which creates the opportunity to reinforce a perception of the brand based on quality, speed of service, responsiveness and reliability.

Types of Policies and Coverage Levels

Roadside assistance policies can either cover vehicles or individuals. Vehicle policies cover a single vehicle or, in some cases, multiple vehicles, while personal policies cover one or more individuals, including families, regardless of the vehicle they are driving. Typically, entry level roadside service includes roadside assistance for repair or for towing broken- down vehicles to a local garage if roadside repair is not possible. This service can be complemented by any of the following additional services:

- *Recovery service*: Recovery service provides members with the ability to transport a broken-down vehicle to a destination of the members' choice.

- *Home service*: Home service provides members with a call-out service for breakdowns while their vehicle is either parked at or within a certain distance of their home.

- *Replacement vehicle/transfer/accommodation service*: Replacement vehicle/transfer/accommodation service provides members with a temporary replacement vehicle or transfer services to a destination of their choice or overnight accommodation if their vehicle cannot be repaired.

Competition

We believe that the competitive landscape in the roadside assistance market is relatively stable with competition based on quality as well as price. According to industry sources, the AA, the RAC and Green Flag are the only sizeable roadside assistance providers in the United Kingdom, accounting for approximately 44%, 26% and 12% of B2C memberships and 42%, 23% and 14% of B2B customers, respectively, as of June 2012. The remaining share is covered by smaller roadside assistance providers, a number of which are subsidiaries of larger insurance groups, including Britannia Rescue, Europe Assistance United Kingdom, Mondial Assistance and AXA Assistance. Market shares have historically been relatively stable, and the investment required to build a trusted, nationwide brand and the cost of building a nationwide branded fleet of qualified patrols with competitive technical ability, along with the sophisticated deployment processes required, has represented significant barrier to entry for new entrants. Green Flag entered the market in 1971 and, according to industry sources, currently accounts for approximately 12% and approximately 14% market share in the B2C and B2B markets, respectively, is the only other participant to have gained any scale in the market in the past 40 years.

B2C Market

In the B2C market, individuals subscribe for a personal membership with the applicable roadside assistance provider, such as the AA, the RAC or Green Flag. In addition to generating fees for the provision of breakdown coverage, these policies also provide roadside assistance providers with revenue opportunities with respect to cross-selling and up-

selling additional products and services, including cover for repair following a breakdown, European coverage and other insurance products. Revenue generated in the B2C market is driven by membership numbers, type of coverage and price. According to industry sources, for the year ended 31 December 2011, the B2C market covered approximately 9 million policies, representing approximately one-third of the overall roadside assistance market.

Distribution Channels

B2C roadside assistance coverage can be acquired through a number of channels. The majority of initial customer contacts are made directly through the Internet or by telephone, typically in response to marketing activity. Face-to-face sales channels, and the sale of roadside assistance cover alongside motor insurance products are also important channels.

Competition

According to industry sources, as of June 2012, the AA was the market leader in the B2C market with a market share of approximately 44%, followed by the RAC and Green Flag with market shares of approximately 26% and 12%, respectively. The competitive landscape within the B2C market has been relatively stable with limited fluctuations in market share.

Market Volume

B2C market volume in the United Kingdom is primarily driven by the number of vehicles on the road. Despite a decline in new car registrations from 2005 to 2011 (Source: www.smmt.co.uk and the Department for Transport (the "**DfT**")), the number of privately owned vehicles on the road remained generally stable, with slight growth over this period at a CAGR of approximately 0.6% due to an aging car parc. B2C market volume is also influenced by the number of license holders. According to the DfT, the number of license holders in Great Britain has grown steadily from approximately 25.1 million in 2001 to 28.5 million in 2011, representing a CAGR of 1.3%.

In addition to B2C memberships, some personal members may have coverage through one or more B2B channels ("**double cover**"). While some personal members may be unaware that they have double cover, other personal members choose to maintain their double cover in order to take advantage of the typically higher levels of cover benefits available from their B2C membership.

Pricing

The B2C market consists of two pricing models. Under the "membership pricing model," typically all new members are charged a flat annual fee for roadside assistance coverage, plus additional flat fees for additional services. Upon renewal, membership pricing is reassessed on a case-by-case basis and individual risks, including the number of past breakdown calls and propensity to renew, are taken into consideration. Alternatively, under the "risk-based pricing model," members are charged a variable price based on the likelihood of their vehicle breaking down at both the time they initially obtain coverage and upon renewal. The AA and the RAC apply the membership pricing model, whereas Green Flag and smaller participants predominantly rely upon the risk-based pricing model.

B2B market

In the B2B market, roadside assistance providers, such as the AA, the RAC and Green Flag, engage with partners, who in turn offer roadside assistance as an add-on or complementary service to the products they offer to their customers. Usage rates are typically lower for B2B customers, partly because B2B customers tend to own newer, more reliable vehicles. To the extent that roadside assistance coverage is bundled with other products, B2B customers are also less likely to call for service. According to industry sources, for the year ended 31 December 2011, the B2B market covered approximately 20 million policies, representing approximately two-thirds of the overall roadside assistance membership market by volume.

Distribution Channels

B2B roadside assistance coverage can be acquired through four primary channels:

- *Added value accounts*: Added value accounts ("**AVAs**") are bank accounts which provide their holders with roadside assistance coverage, among other offerings, in connection with their account. Lloyds Banking Group, Barclays, RBS, HSBC and Santander each offer AVAs that provide third-party roadside assistance coverage.

- *Car manufacturers*: Certain car manufacturers, including Ford, Vauxhall, Volkswagen, BMW and Peugeot, offer third-party roadside assistance coverage (typically for one year) to purchasers of new or used vehicles through a franchised or approved dealer.

- *Fleet and leasing companies*: Several fleet and leasing companies provide indirect coverage to customers who rent their vehicles. Rental car companies (such as Europcar, Avis and Hertz), commercial fleet rental companies (such as Hitachi, BT and Centrica) and fleet managers (such as LeasePlan and Lex Autolease) utilise third-party roadside assistance providers for their vehicles.

- *Insurance*: Insurance companies, including Direct Line, Aviva, Admiral and Tesco, offer third-party roadside assistance coverage as part of their motor insurance policy offerings, either sold separately or bundled with other products.

According to industry sources, as of December 2011, the AVA channel covered approximately 8 million policies (40% of the B2B market), the car manufacturers channel covered approximately 6 million policies (30% of the B2B market), the fleet channel covered three million policies (15% of the B2B market) and the insurance channel covered three million policies (15% of the B2B market).

Competition

According to industry sources, as of June 2012, the AA was the market leader in the B2B market, with approximately 42% market share based on number of B2B customers, followed by the RAC and Green Flag, with approximately 23% and 14% market share, respectively. The competitive environment for B2B customers varies significantly by distribution channel. In the AVA coverage market, the AA and Green Flag have exclusive relationships with Lloyds Banking Group and RBS, respectively, with the RAC serving a number of market participants including Barclays and the Co-operative Bank. The AA and the RAC hold a significant majority of the fleet coverage market and both compete with Mondial in the car manufacturer coverage market. A significant proportion of the insurance market is served by Green Flag (which is part of Direct Line Group) and other smaller roadside assistance providers owned by the same group as the insurer.

Market Volume

According to industry sources, despite AVA penetration remaining generally flat at approximately 17% of current bank accounts, the AVA coverage market has slowly grown since 2009, as a result of the increasing number of accounts.

The car manufacturer coverage market is driven by the number of new and used vehicles sold to consumers through franchised or approved dealers. According to the DfT, the number of privately owned cars grew at a CAGR of approximately 0.6% between 2005 and 2011. Despite an average decline of 4% per year in new car registrations over the same period, new car registrations returned to higher levels of growth in 2012 (Source: www.smmt.co.uk). The fleet coverage market is driven by the development of the number of commercial vehicles in the United Kingdom that are less than five years old.

Pricing

Prices in the B2B market are typically set on either a per breakdown basis or on a per vehicle insured basis. Pricing within the B2B market tends to be more competitive than in the B2C market, where contracts are regularly tendered by B2B partners. The largest breakdown providers tend to hold an advantage over smaller providers, due to their economies of scale.

UK Insurance Broker Market

Insurance Broker Model

An insurance broker acts as an intermediary between individuals seeking an insurance policy and insurance underwriters, who underwrite insurance policies and provide coverage for losses claimed under those policies. Insurance brokers administer policies and earn commissions based on a percentage of the premium paid by policy holders, without assuming any underwriting risk. Brokers typically generate increased customer value through the sale of ancillary products, including legal coverage, accident plans, car hire, excess coverage and breakdown and key coverage. More sophisticated brokers will also add value to their underwriters' policy offerings by enhancing the risk data available at the point of quote. The insurance brokerage sector is led by a small number of large brokers who design policies and maintain a panel of underwriters who quote competitively for individuals risks. Most insurance brokers in the United Kingdom offer a range of insurance products, including motor, home and travel insurance.

Motor Insurance

Motor insurance is a legal requirement in the United Kingdom and therefore a non-discretionary product. As a consequence, the motor insurance market tracks the number of vehicles on the road and the number of licensed drivers. According to the Association of British Insurers ("**ABI**"), in 2012, 23.9 million private vehicles were insured. ABI data also shows that the personal motor insurance market in the United Kingdom generated approximately £10.1 billion in gross written premiums ("**GWP**") in 2011 and has grown at a CAGR of 2.8% since 2001. GWPs have increased by approximately 6.3% and 10.1% in 2010 and 2011 compared to the previous year, respectively, primarily as a result of growth in personal injury claims in recent years. The cost of claims is expected to fall with legislation designed to curb the activities of claims management companies who represent and assist policy holders in pursuing their claims, resulting in increased claim settlements. The motor insurance market is relatively fragmented with a large number of participants.

Insurance brokers, including the AA, Budget Group and Swinton Insurance, compete against other brokers and direct insurers through a range of channels, of which PCWs have become the largest, accounting for over 50% of the market.

PCWs, including Moneysupermarket.com, Gocompare.com, Confused.com and Comparethemarket.com, have enabled comparison of multiple prices on the same website, leading to price competition and margin pressure. The market penetration of PCWs is reaching maturity and penetration has been relatively stable since 2010 (Source: Datamonitor, November 2012).

In addition to PCWs, brokers solicit new business customers through online and offline marketing activities and seek to upsell and cross-sell products through more customer interaction.

Home Insurance

The development of the home insurance market is largely driven by residential property transactions as home insurance is typically taken out when purchasing property. In order to increase customer value, home insurance providers typically also offer a range of related products, including home emergency as well as maintenance and repair coverage for boiler breakdown, blocked pipes, roof damage, nest removal and other property related matters, such as home legal expenses cover. According to ABI, the home insurance market generated approximately £6.9 billion in GWPs in 2011, having grown at a CAGR of 3.5% since 2001. The underwriting performance of the United Kingdom home insurance market has remained more consistent than the motor insurance market in recent years, because of relatively stable underlying claims experience for underwriters. The home insurance market is also relatively fragmented, albeit with greater participation from retail banks and mortgage providers.

Home insurance is distributed across a broader range of channels. Similar to motor insurance, the number of PCWs has increased in the home insurance market; however, their presence is less prevalent compared to motor insurance, in part, due to the relative prominence of banks and building societies, which are an important sales channel as home insurance is often required when purchasing a home with mortgage financing. Lower average premiums and higher retention rates compared to the motor insurance market, combined with individual property specifications (flood locations, home size and building materials), which are used in the underwriting process, have restricted PCW market penetration, which is now at around 30% (Source: Datamonitor, November 2012).

UK Home Emergency Market

Home emergency policies are designed to protect customers against specific types of home-related issues. Emergency response policies typically cover central heating and plumbing systems, boiler failure, leaks and blocked drains. Certain policies also cover selected other emergencies, including roof damage, electrical faults and failures, security, pest control and water and gas supply issues.

Distribution Channels and Models

Home emergency services providers can be categorised by their marketing channel and types of services and products:

- *Utilities*: Home emergency coverage, particularly boiler and central heating coverage, is often offered to existing utility customers by utility providers. British Gas is estimated to be the largest provider of boiler and heating coverage, providing installation and maintenance of domestic central heating and gas appliances to approximately 8.0 million customers in the United Kingdom. Other utilities, including E.ON, operate mixed models of their own and sub-contracted networks.

- *Affinity model*: Home emergency services may be offered by companies with utility and water affinity partners. The company HomeServe is the second largest provider of home emergency coverage in the United Kingdom. According to HomeServe's Annual Report & Accounts for 2012, HomeServe had access to 24 million households through utility and water affinity partners, where it covered 2.7 million customers as of March 2012.

- *Insurance providers*: Home emergency services are offered as a separate add-on to home, car or breakdown coverage of existing customers. Certain providers, including the AA and AXA Assistance, offer repair and claim settling mainly through their own engineers and networks. Other providers, including Direct Line, typically operate third-party contractor networks, as the cost for an independent network can be substantial.

- *AVA*: Banks, including RBS and Lloyds Banking Group, bundle home emergency products with AVAs and AVA customers utilise the associated third-party roadside assistance provider to service their vehicle repair needs.

The home emergency market is generally only applicable for those who own homes. There are approximately 21.0 million households in the United Kingdom within the home emergency market. In addition, according to estimates by HomeServe as of June 2010, approximately 32% of all applicable households hold some form of home emergency coverage, making increasing penetration the most important driver of future market growth.

UK Driving Services Market

The driving services market comprises driving schools as well as training for drivers who have committed certain driving offences and training for occupational drivers. According to industry sources, the market for driving services is estimated to be in the range of £700 million to £860 million as of 31 January 2013. In terms of share of pupils and revenue, the AA/BSM is the market leader with an approximate 20% market share, while the remaining market shares are covered by RED, LDC, Bill Plant and smaller, independent providers, according to industry sources.

The market for driver re-education following traffic offences is currently split among three main competitors and smaller local authorities. The AA (through AA DriveTech) is a leading provider with 14 contracts with local government and police forces. We estimate that AA DriveTech's largest competitor is TTC. AA DriveTech also operates in the fleet training market, providing driver training for corporation and other organisations. According to industry sources, AA DriveTech is one of the two largest operators in this market.

BUSINESS

Overview

We are the largest roadside assistance provider in the United Kingdom, representing over 40% of the market and responding to an average of approximately 10,000 breakdowns every day. With over 100 years of operating history, we have established ourselves as one of the most widely recognised and trusted brands in the United Kingdom. We have successfully leveraged our brand and pursued an affinity-based expansion model into complementary products and services to also become a leading provider of insurance broking services, home emergency assistance services, financial services intermediation and driving services, each of which is offered under the AA brand. As of 31 January 2013, approximately 16 million customers, representing approximately 51% of UK households, subscribed to at least one AA product.

In the twelve months ended 31 July 2013, we generated Trading turnover of £975.2 million and Trading EBITDA (defined as profit before taxation, net interest payable and similar charges, goodwill amortisation, exceptional items, pension curtailment gain, items not allocated to a segment and depreciation) of £408.5 million. Between 31 January 2009 and 31 July 2013, our Trading turnover grew at a CAGR of 2.0%. Our business generates attractive margins, with a Trading EBITDA margin of 41.9% for the twelve months ended 31 July 2013. We have high cash conversion ratios (defined as available cash inflow from operating activities divided by Trading EBITDA) of 94.3% and 101.7% in the year ended 31 January 2013 and the twelve months ended 31 July 2013, respectively, as we have favourable working capital dynamics due to the fact that the majority of our personal members pay for services in advance and the majority of our suppliers are paid after the provision of goods and services. In addition, we estimate that approximately 84% of our turnover and approximately 92% of our profit contribution (turnover less marketing and service and delivery costs) for the year ended 31 January 2013 was derived from repeat business (defined as income from renewing personal members and insurance customers, multi-year B2B roadside assistance and driving services contracts and driving school franchisees that contribute to turnover), which contributes to the relative predictability of our future Trading EBITDA and cash flow.

Our Strengths

Widely recognised and trusted consumer brand

The AA brand is one of the most widely recognised consumer brands in the United Kingdom, with over 100 years of operating history and over half of UK households subscribing to at least one AA product. We believe that our excellent customer service has resulted in high levels of customer satisfaction and that, as a result, we have successfully positioned the AA as the UK's "4th Emergency Service." Customer engagement is high, and on average, each of our personal members will use the service once every two years. Our nationwide reputation is evident through our own and independent surveys indicating leading levels of brand favourability and satisfaction among UK consumers. The AA has achieved the highest overall score of the major roadside assistance providers in each of the past six years, as assessed by *Which?*, one of the largest consumer organisations in the United Kingdom.

Our brand is further enhanced through the AA's approximately 3,000 branded "yellow" patrol vehicles, which provide us with a strong market presence and high visibility on the road. Our brand is also highly visible through our road signage, publishing and hotel and restaurant accreditation services. In addition, our AA Routeplanner website served approximately 2.4 million routes per week on average during the year ended 31 January 2013 and our suite of AA branded mobile apps were downloaded approximately 3.9 million times to date. Due to the strength of the AA brand, we have successfully implemented an affinity-based expansion model, enabling us to develop complementary products and services beyond traditional roadside assistance services.

Market leader in the UK roadside assistance market

According to industry sources, the total UK vehicle recovery service market generated approximately £1.5 billion as of December 2011, covering approximately 29 million policies. In addition, the market has been resilient throughout the recent economic crisis, as consumers in the United Kingdom have demonstrated a propensity to retain their roadside assistance coverage. This supports the view that the service is one that our personal members may opt to maintain in spite of reductions in household income.

We are the largest roadside assistance provider in the United Kingdom based on market share, with approximately four million personal members and nine million B2B customers, representing approximately 44% and 42% of the B2C and B2B markets, respectively (according to industry sources), significantly larger than the next largest roadside assistance provider, the RAC. At 31 January 2013, approximately 1.5 million personal members had been with the AA for more than 10 years, of which approximately 800,000 had been personal members for more than 20 years. See "*—Our Products and Services—Roadside Assistance*."

Significant barriers to entry in a mature and concentrated market

The roadside assistance market in the United Kingdom is a mature and concentrated market. The three primary market participants are the AA, the RAC and Green Flag, which together account for approximately 80% of the combined B2C and B2B roadside assistance markets. The most recent of these to enter the market was Green Flag in 1971 and,

according to industry sources, it accounted for approximately 12% of the B2C market and approximately 14% of the B2B market as of 31 January 2013. We believe that the substantial resource and scale required to operate an efficient national roadside service, combined with high start-up costs for new market entrants, pose significant barriers to entry. The AA is well positioned within the market as a result of the following brand specific factors:

- the strength of the AA brand established over a 100-year operating history has fostered high levels of trust and loyalty among our customer base and has contributed to our high customer retention rates;

- our national coverage and the economies of scale we achieved through our approximately 3,000 dedicated patrols allow us to reach our customers quickly and to provide high quality service to approximately 3.8 million breakdowns per year at a lower cost per breakdown than competitors with less scale and that employ third-party garage networks;

- our sophisticated deployment processes and delivery systems for addressing breakdowns have been specifically developed by the AA over years of operational experience and would be difficult and expensive to replicate;

- our proprietary database of approximately 20.0 million individuals who have consented to receive communications from the AA provides us with a significant platform to cross-sell our complementary products and services and provides us with critical data for our pricing models; and

- well-established relationships with our B2B partners, whereby we are able to provide high-quality service to their customers, as well as important statistical data such as vehicle faults and performance information to the B2B partners themselves.

We believe these brand specific factors, combined with the significant barriers to entry in the roadside assistance market described above, have allowed us to maintain our leading market position in a mature and concentrated market.

Diversified and substantial customer base with potential for high product and service cross-holding levels

As of 31 January 2013, approximately 16.0 million customers, representing approximately 51% of UK households, subscribed to at least one AA product or service and approximately 55% of our customers had more than one of our products or services. We believe that there is further potential to increase the cross-holding of our products and services, particularly among our roadside assistance personal members. For example, while approximately 65% of our motor insurance customers were also personal members as of 31 January 2013, only approximately 11% of our approximately four million roadside assistance personal members were motor insurance customers. We believe this represents a significant opportunity for increased motor insurance sales to our roadside assistance personal members. Our extensive proprietary database provides us with a cost-efficient platform to cross-sell our complementary products and services, including our insurance and home emergency products and services, on a targeted basis to our existing customers, thereby increasing value per customer.

Strong market positions across an attractive portfolio of complementary product offerings

By leveraging the strength of the AA brand, we began successfully expanding into the UK motor and home insurance broking market in 1967, as well as the financial services intermediation market in 1980, the driving services market in 1992 and the home emergency services market in 2010.

We are one of the leading insurance brokers in the United Kingdom and have a long history of distributing motor, home and other insurance products to both personal members and non-members, with approximately 1.9 million policies currently in force as of 31 July 2013. We have achieved a high degree of cross-penetration between our business segments. Of our motor and home insurance customers, approximately 65% and 44%, respectively, were also AA roadside assistance personal members as of 31 January 2013.

We launched our home emergency services in December 2010, largely building on our existing AA sales and operational infrastructure and taking advantage of our significant experience in managing substantial and sophisticated deployment processes. Having rapidly established the AA as a leading player in the home emergency market, we served approximately 1.1 million households as of 31 July 2013, through our B2C and B2B relationships, with a significant cross-penetration of approximately 62% of home emergency members already subscribing to our roadside assistance services as of 31 January 2013.

We are the largest driving school in the United Kingdom based on market share according to industry sources, with approximately 2,900 franchised instructors teaching individuals to drive or how to become driving instructors.

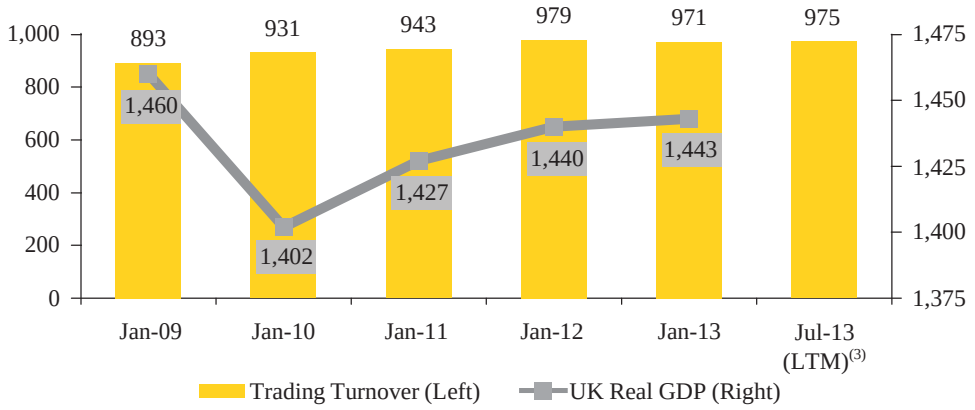
Additionally, the AA provides financial services intermediation products such as savings accounts, unsecured loans, credit cards, currency cards and life insurance policies, with a portfolio of approximately 137,000 savings account customers with savings deposits of approximately £2.9 billion through our business partner, Birmingham Midshires (Lloyds Banking Group), as of 31 July 2013.

Resilient business model with high recurring turnover and significant cash flow generation

We have maintained a strong historical performance through the economic cycle, as reflected in the charts below presenting our Trading turnover (defined as turnover excluding turnover not allocated to a segment) and Trading EBITDA for the five years ended 31 January 2013 and twelve months ended 31 July 2013 compared to UK Real GDP for the five years ended 31 December 2012:

Trading turnover[1] (£ in million) and UK Real GDP[2] (£ in billions)

2009-July 2013 Trading turnover CAGR: 2.0%

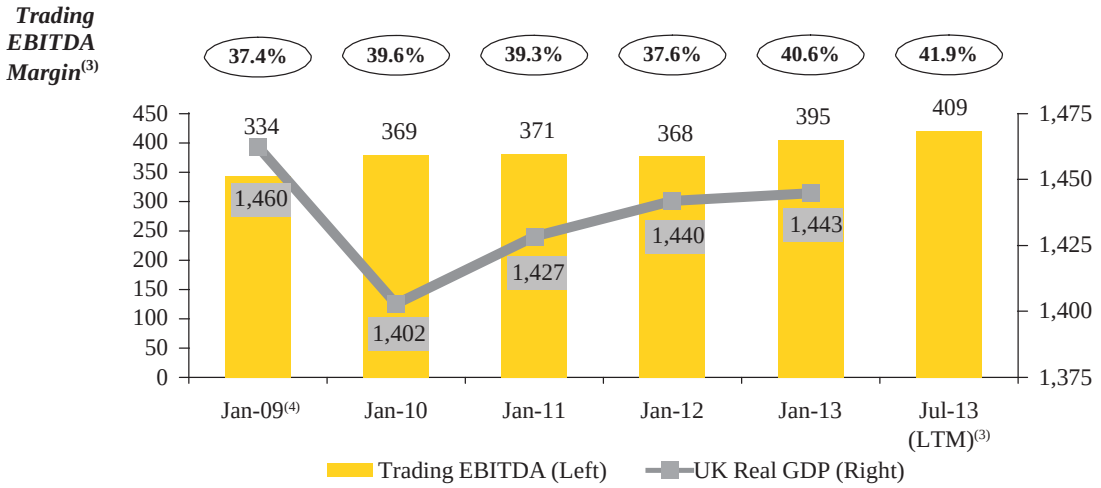


(1) Trading turnover includes turnover from insurance underwriting. Trading turnover for the financial years ended 31 January 2009 and 2010 was derived from our management accounts and Trading turnover for the financial years ended 31 January 2011, 2012 and 2013 was derived from our audited consolidated financial statements.

(2) UK Real GDP is presented for the five years ended 31 December 2012 (Source: IMF).

(3) Trading turnover for the twelve months ended 31 July 2013 has been derived by adding the results of operations for the six months ended 31 July 2013 to the difference between the results of operations for the full year ended 31 January 2013 and the six months ended 31 July 2012.

Trading EBITDA[1] (£ in million) and UK Real GDP[2] (£ in billions)



(1) Trading EBITDA for the financial years ended 31 January 2009 and 2010 was derived from our management accounts and Trading EBITDA for the financial years ended 31 January 2011, 2012 and 2013 was derived from our audited consolidated financial statements.

(2) UK Real GDP is presented for the five years ended 31 December 2012 (Source: IMF).

(3) Trading EBITDA and Trading EBITDA Margin for the twelve months ended 31 July 2013 have been derived by adding the results of operations for the six months ended 31 July 2013 to the difference between the results of operations for the full year ended 31 January 2013 and the six months ended 31 July 2012.

(4) Beginning on 1 February 2009, we have capitalised internal labour costs. We have not restated our results for the year ended 31 January 2009 to reflect this change in our accounting policies. We estimate that this amount would have increased Trading EBITDA by £3.5 million in the year ended 31 January 2009.

We have high member and customer retention rates within each of our major segments as a result of both individual customer brand loyalty and significant multi-year B2B contracts, which provide recurring turnover and significant cash flow generation. We estimate that approximately 84% of our turnover and approximately 92% of our profit contribution (defined as turnover less marketing and service delivery costs) for the year ended 31 January 2013 was derived from repeat business. The average personal member retention rate within our roadside assistance segment was approximately 79% in the year ended 31 January 2013. The average tenure of personal members within our roadside assistance segment was approximately 11 years, with retention rates increasing with membership tenure. The data which we have collected comparing our personal roadside assistance membership to UK GDP for the last 40 years indicates that our personal roadside assistance membership base has remained relatively stable, despite cyclicality in the broader economy. Our insurance services products, principally motor and home insurance and home emergency, had an average retention rate of approximately 71% for the year ended 31 January 2013.

Furthermore, the implementation of new customer administration systems in our roadside assistance and insurance segments over the past three years has increased the volume and quality of data available to us, allowing us to improve our pricing and non-pricing retention capabilities.

We have high cash conversion ratios (defined as available cash inflow from operating activities divided by Trading EBITDA) of 94.3% and 101.7% in the year ended 31 January 2013 and the twelve months ended 31 July 2013, respectively, as we have favourable working capital dynamics due to the fact that the majority of our personal members pay for services in advance and the majority of our suppliers are paid after the provision of goods and services.

Experienced and proven management team complemented by a dedicated workforce

Our management team is highly experienced, with an average tenure of approximately seven years with the AA and a strong historical track record of growing our Trading EBITDA. In recent years, for example, our management team has overseen the extension of our cross-sale activities through our expanded range of services, the organic development of our home emergency segment, the replacement of customer administration systems and the development of the driving services segment through both organic development and bolt-on acquisitions. These activities were delivered in addition to the ongoing improvements in profit contribution from both B2C and B2B roadside assistance activities. Furthermore, over the past year, our management team has streamlined our call centre operations, removing management duplication and improving call handling efficiencies.

We also have a highly skilled and experienced workforce with an average roadside assistance patrol tenure of over 10 years. Our hiring process for automotive technicians is selective and once hired, our patrol members receive additional training and support and are subject to ongoing evaluation. We believe that the excellent quality of our workforce contributes to our high roadside repair rates, which in turn contributes to customer retention.

Our Strategy

Continue to enhance and develop our roadside assistance service offerings

We believe that our highly skilled and experienced workforce and our strong track record in the roadside assistance service industry are key factors driving our ability to win new personal members and retain and extend existing contracts. We intend to continue to implement customised technology to enhance our roadside services and other product offerings as opportunities arise. We believe targeted investments in IT and diagnostic equipment will help ensure that our fleet continues to achieve a high roadside repair rate and provide high quality roadside service. For example, we recently equipped our standard service vans with mobile data terminals that display contact details and breakdown history for our personal members and B2B customers. In addition, we are focused on rolling out special services, such as AA Key Assist, which combines professional locksmith skills with advanced diagnostic equipment to quickly replace lost, damaged or stolen vehicle keys. AA Key Assist allows our patrols to provide replacement keys for most vehicle models within one hour of arriving at the scene. We believe that our ability to provide advanced tools, diagnostic equipment and technology at the roadside and to develop distinct value-added services differentiates us from our competitors.

Further increase value per customer through cross-selling and up-selling

One of our key priorities is the continued focus on the promotion of our products and services among our large existing personal member and customer base. In particular, we are actively cross-selling multi-product packages and up-selling existing customers to higher levels of coverage where appropriate. As of 31 January 2013, we maintained a database of approximately four million roadside assistance personal members, of which only approximately 11%, 6% and 7% purchased our motor insurance, home insurance and home emergency services, respectively. Furthermore, we believe that our roadside assistance personal members find our other products and services attractive based on the fact that as of 31 January 2013, approximately 65% of our motor insurance, 44% of our home insurance and 62% of our home emergency customers were also roadside assistance personal members. The relatively low percentage of cross-holding among our roadside assistance personal members represents an opportunity for further sales. We regularly analyse our database to identify opportunities to market products and services to our existing customers at attractive prices.

Focus insurance broking on areas of competitive advantage

We intend to continue to develop our insurance broking business, in particular by focusing primarily on our demonstrated ability to cross-sell and up-sell our extensive insurance product range to our existing customer base, including the approximately four million personal members that currently subscribe to our roadside assistance services. The insurance broking market is highly competitive and price competition is significant. As a result, we are particularly focused on capitalizing on the competitive advantage afforded to us by the size and quality of our proprietary data base to increase our sales. In particular, our substantial customer base, combined with our database management systems, allows us to collect and provide motor insurers with historical risk-related information concerning our personal members, which is only available to the AA. For example, in addition to providing generally available credit scoring information, we are able to provide information regarding our personal members to assist motor insurers in their analysis of insurance risk. We currently have proprietary data which allows preferential pricing for a majority of our personal members. We believe the data we provide to motor insurers will continue to allow us to achieve preferential pricing terms for our existing roadside assistance personal members. In addition, we believe that our regular direct contact with our existing personal members and B2B customers through our call centres will continue to provide us with a cost-efficient platform from which to sell motor, home and a variety of other insurance products on a targeted and customer-specific basis.

Grow home emergency business from a solid base

We are one of the fastest growing home emergency providers in the United Kingdom and we believe that there is significant scope for further growth. The AA covers approximately 1.1 million households out of an estimated total potential market of approximately 21.0 million households. We believe that our home emergency service is attractive to both existing roadside assistance personal members and customers in our other segments, and to prospective customers, due to the strength of our brand and our reputation for quality service. One of the key elements of our growth strategy for our home emergency services is to continue leveraging the AA brand by cross-selling our home emergency service to our existing roadside assistance personal members and home insurance customers. As of 31 January 2013, only approximately 7% of our roadside assistance personal members had purchased our home emergency services, suggesting that there is significant room for future growth within our existing customer base. We also intend to focus on up-selling our existing home emergency customers to higher levels of coverage, such as our boiler and central heating repair policies. Building on the success of our affinity-based expansion model with our B2B partners, such as Lloyds Banking Group, which has enabled us to penetrate the B2B market, we intend to continue to create similar relationships with other banks and financial institutions, utility companies and affinity groups to promote our home emergency service expertise.

Maintain and grow driving services market share

We are a leading provider of private driver education with approximately 20% share of pupils and revenue in a fragmented market, according to industry sources. We also offer commercial driver education programmes in the United Kingdom. We intend to further develop our leading market position by extending our range of driver training and awareness products. For example, primarily through corporate contracts with AA DriveTech, we provide driver education and awareness training specifically designed for commercial and professional drivers. We aim to continue to build on our strong relationships with UK police forces, as a significant proportion of AA DriveTech customers are referred to us as a result of having committed certain driving offences. We are also developing contacts with small businesses that require their employees to enrol in driver education programmes. Although we are currently focused on maximising enrolment in our existing driving schools and training programmes, we will also consider potential selective acquisitions in this area as attractive opportunities arise.

Principal Shareholders

The shareholders of our ultimate parent are funds controlled by Charterhouse (36%), funds controlled by CVC (20%), funds controlled by Permira (20%), employees (20%) and others (4%).

Charterhouse is a UK-based private equity firm that specialises in European leveraged buyouts. With a portfolio that includes financial services, industrial and manufacturing businesses, Charterhouse has approximately €7.1 billion of assets under management. CVC is a UK-based private equity firm with offices throughout Europe, Asia and the United States. CVC has completed over 300 investments in a wide range of industries and currently has secured commitments of approximately $50.0 billion. Permira is a UK-based private equity firm that specialises in the consumer, financial services, healthcare, industrials and technology and media sectors. Permira advises funds of approximately €20.0 billion.

Recent Developments

The Separation

In 2007, the AA joined Saga under common ownership and has since operated as a subsidiary of the parent company, Acromas Holdings Limited, which is owned by funds controlled by Charterhouse (36%), funds controlled by CVC

(20%), funds controlled by Permira (20%), employees (20%) and others (4%). However, the AA has largely maintained independent business operations within each of its segments, with the exception of certain shared services and trading relationships among the AA Group, the Acromas Group and the Saga Group, including with respect to information technology, legal services, financial services and treasury administration.

On 2 July 2013, the operations of the AA Group were separated from the Acromas Group and the Saga Group. However, the AA continues to be owned by Acromas and have certain shared responsibilities and trading relationships with the Acromas Group and the Saga Group. To formalise the Separation, the AA Group entered into an inter-group services agreement with the Acromas Group that governs the relationship between certain members of the AA Group, the Saga Group and the Acromas Group and sets forth the terms and conditions on which certain services are provided between such members.

Taxes

Following the Separation, members of the AA Group are able to surrender available tax losses to and accept surrenders of available tax losses from members of the Acromas Group and the Saga Group, and to enter into other tax transactions with members of the Acromas Group and the Saga Group. In the case of those members of the AA Group that form part of the Topco Restricted Group, such transactions are regulated under the Tax Deed of Covenant. The surrender of available tax losses from the Topco Restricted Group companies to the Acromas Group or the Saga Group companies or vice versa must be for consideration equal to the tax value of the losses surrendered and any other tax transactions entered into between the Topco Restricted Group companies and Acromas Group and Saga Group companies may only be entered into if any such tax transaction leaves each member of the Topco Restricted Group, taken together, and each member of the Acromas Group and the Saga Group, taken together, in no worse net economic position than they would have been in had such tax transaction not taken place.

The Tax Deed of Covenant places certain restrictions on the surrender of tax losses between members of the Acromas Group and the Saga Group and members of the Topco Restricted Group. A member of the Topco Restricted Group may accept a surrender of tax losses from a member of the Acromas Group or the Saga Group only after (i) any member of the Topco Restricted Group which has tax losses for the relevant accounting period has agreed to surrender all such losses exclusively to other Topco Restricted Group members and (ii) any Acromas Group or Saga Group member which has tax losses for the relevant accounting period which relate to an arm's length loan granted by a bank or other financial institution has agreed to surrender all such losses exclusively to other Topco Restricted Group members.

In addition, there is a group payment arrangement whereby Saga Services Limited pays sums on account of corporation tax to HMRC on behalf of group companies, including members of the AA Group, and the members of the AA Group are members of a VAT Group that also contains members of the Acromas Group and the Saga Group, the representative member of which is Saga Group Limited. Each of these arrangements necessitates members of the AA Group making payments on account of their corporation tax liability and/or net VAT liability to Saga Services Limited and Saga Group Limited, respectively. The AA Group is therefore in the same corporation tax and VAT cash flow position as if it were a stand-alone business, albeit that instead of making direct payments to HMRC, it puts Saga Services Limited and Saga Group Limited in funds for their payments to HMRC, receiving funds from those companies and making payments for group relief. In relation to those members of the AA Group that form part of the Topco Restricted Group, such payments are regulated under the Tax Deed of Covenant.

AA Pension Schemes

The AA Group operates two defined benefit pension schemes: (i) the AA UK Pension Scheme, which we operate for AA employees in the United Kingdom, including the Channel Islands, and (ii) the AA Ireland Pension Scheme, which we operate for AA employees in Ireland. The AA UK Pension Trustee and the AA Ireland Pension Trustee were granted shared super senior security over certain assets by certain subsidiaries of Topco and the Borrower on 2 July 2013. The terms of the £150 million security for the AA UK Pension Trustee and the £10 million security for the AA Ireland Pension Trustee and certain other agreements with the trustees regarding other pensions issues, such as scheme funding and guarantees, are set out in the AA UK Pension Agreement and the AA Ireland Pension Deed, respectively.

The AA UK Pension Scheme is the largest scheme operated by the AA Group and according to the last completed actuarial valuation, which was carried out as at 31 March 2010, the AA UK Pension Scheme had a funding deficit of approximately £87 million and assets of approximately £1,222 million. The 2013 Valuation is currently being conducted for the AA UK Pension Scheme. We estimate that the funding deficit with respect to the AA UK Pension Scheme as at 31 March 2013, was approximately £200 million, which is slightly higher than our prior estimate of approximately £180 million, which was made at the time of the Refinancing. However, the funding deficit for the purposes of the finalised 2013 Valuation will depend on the assumptions we agree with the AA UK Pension Trustee, which are not yet final. In light of the increased deficit in the context of the 2013 Valuation, we intend to implement the ABF, which will provide the AA UK Pension Scheme with an inflation-linked income stream over 25 years (with the first annual payment expected to be in the region of £12 million), which is intended to address the funding deficit that will be disclosed in the 2013 Valuation. Typically, funding deficits are addressed over a much shorter period than 25 years and, in order to secure the AA UK Pension Trustee's agreement to this

longer 25-year term under the ABF, the AA UK Pension Trustee's existing security will be released and replaced with first-ranking security (through the ABF structure) over our brands up to a value of £200 million. A non-binding term sheet setting out the terms of the ABF previously was agreed with the AA UK Pension Trustee and appended to the otherwise binding AA UK Pension Agreement. The documents required to implement the ABF are currently being negotiated and we intend to implement the ABF in conjunction with the 2013 Valuation documents. If the ABF is not implemented, then the AA UK Pension Trustee's security will remain at its present value of £150 million. There can be no assurance that the funding deficit with respect to the AA UK Pension Scheme will not increase in the future, whether or not the ABF is implemented, which may result in materially higher payments to the AA UK Pension Scheme being required to address such increased deficit.

The AA Ireland Pension Trustee's security will remain in place irrespective of whether the ABF is implemented in respect of the AA UK Pension Scheme.

As a result of a recent law change, certain employers in the United Kingdom are now required to automatically enrol eligible employees (who are not already members of a qualifying pension scheme) into a qualifying pension scheme with a minimum level of employer contributions. The AA Group became subject to these obligations with effect from 1 April 2013. The AA Group has automatically enrolled 2,656 eligible employees who were not already members of a qualifying pension scheme (such as the AA UK Pension Scheme) into a separate group personal pension plan operated by a third party pension provider, of which 293 opted out, resulting in an additional pension cost of approximately £0.8 million per annum.

The Migration

One of our subsidiaries, TAAL, is incorporated in Jersey and is regulated by the JFSC as a registered person under the Financial Services (Jersey) Law 1998 to carry on general insurance mediation business, as more fully described under "*Regulatory Overview—TAAL Jersey Regulatory Overview*." Consequently, TAAL is subject to certain requirements imposed by Jersey law, which, among other things, requires prior approval from the JFSC to transfer direct and indirect ownership in TAAL or appoint a liquidator or an administrator, or to perfect any assignment of title to or enforce any security interest granted in respect of the share capital of TAAL or any parent company of TAAL. Accordingly, in order to facilitate enforcement of the Obligor Security in the future, including the appointment of an administrative receiver, TAAL and AADL, an entity incorporated in England, entered into the Business Transfer Deed in connection with the Refinancing, pursuant to which TAAL agreed to sell, and AADL agreed to buy, the business of TAAL as a going concern and the legal and beneficial title to substantially all the income producing assets of TAAL. In connection with the sale, AADL assumed all the liabilities of TAAL, as well as agreed to pay the book value of the transferred assets.

Substantially all the income producing assets of TAAL are being transferred in accordance with the terms set out in the Business Transfer Deed. The transfers commenced in September and all employees and pension arrangements have been transferred and the process of transferring property interests, customers and suppliers is in progress. No impact on the Group's operations or trading performance is expected to arise from this transfer. AADL has been substituted for TAAL as the sponsoring employer under the AA UK Pension Scheme. The transfer of supplier contracts, finance leases and leases of real estate, which are subject to the receipt of applicable third-party consents, are also in progress. Following the transfer of employees to AADL, TAAL and AADL entered into a transitional services agreement to ensure TAAL is able to discharge its duties in respect of assets that have yet to be transferred or which do not form part of the assets being sold to the same standard that it has applied prior to the date of the Business Transfer Deed.

Trading Update

We expect that our Trading EBITDA for the nine months ended 31 October 2013 will be higher than our Trading EBITDA for the nine months ended 31 October 2012.

The above information is not intended to be a comprehensive statement of our financial or operational results for the nine months ended 31 October 2013. The preliminary estimates above were prepared based on a number of assumptions and estimates that are subject to inherent uncertainties and subject to change. Accordingly, our actual results for the nine months ended 31 October 2013 may vary from our preliminary estimates above, and such variations could be material. See "*Forward-Looking Statements*" and "*Risk Factors*" for a more complete discussion of certain of the factors that could affect our future performance and results of operation.

Our History

The AA was formed in 1905 by a group of motoring enthusiasts in London. The official duties of the first AA patrols were to indicate dangers on the road and help motorists who had broken down. By 1909 the patrols wore uniforms and were recognised across England and Scotland. In the early years of our business, the AA appointed agents and repairers, assisted drivers in identifying journey routes and began inspecting and classifying hotels. Following the First World War, the patrol service began to employ motorcycles equipped with tools, spare parts and fuel in making roadside repairs. By 1939, the AA had 725,000 personal members, equivalent to 35% of the two million cars then on the road. By 1950, the AA had reached the milestone of one million personal members.

The AA launched its insurance services segment in 1967. Motorists wanted insurance cover from an organisation with which they were familiar and could trust and, as such, turned to the AA. Over the course of the 1970s and 1980s, the AA introduced four-wheeled patrol vehicles, launched a programme to guarantee transport of seriously broken-down vehicles and their drivers to final destinations and implemented the first AA computer system. In response to market changes, the AA also began to develop B2B relationships, whereby its roadside assistance service would be offered to the customers of car manufacturers, fleet and leasing companies and financial service providers as an "add-on" or complementary service to the products purchased from such businesses. The AA began offering its own non-insurance, financial services products in 1980, and has since expanded to include savings accounts, unsecured loans, credit cards and life insurance policies. The AA also launched its driving school in 1992 and its home emergency services operations line in 2010.

In 1999, AA members voted to demutualise the AA and join the Centrica group. In October 2004, the AA was acquired from Centrica by the private equity groups CVC and Permira, and in 2007 it was combined with Saga (which was owned by private equity group Charterhouse) to form part of the Acromas Group. Since 2007, the AA has operated as a subsidiary of the parent company Acromas, which is owned by funds controlled by Charterhouse (36%), funds controlled by CVC (20%), funds controlled by Permira (20%), employees (20%) and others (4%).

Our Products and Services

We have a strong UK consumer franchise built upon our market-leading roadside assistance business. We offer a wide variety of products and services across four primary segments: roadside assistance, insurance services, driving services and AA Ireland.

Roadside Assistance

We are the leading provider of roadside assistance across the United Kingdom, with approximately 3,000 dedicated patrols reaching an average of 10,000 breakdowns each day. Unlike certain other roadside assistance providers that only provide customers with access to towing services or a third-party garage network, our patrols are trained to assess and repair a multitude of vehicle malfunctions at the roadside. The AA service vans and motorbikes are each equipped with highly advanced tools, equipment and technology designed to enable our patrols to achieve a high roadside repair rate, and in the twelve months ended 31 July 2013 our patrols successfully repaired approximately 76% of breakdowns at the roadside.

We serve a broad spectrum of roadside assistance clients, who are divided principally between personal members, who subscribe for roadside assistance coverage directly through membership agreements with us within the B2C market, and B2B customers, who receive our roadside assistance coverage indirectly as an "add-on" or complementary service to the products they purchase from our B2B partners in the B2B market. As of 31 July 2013, we had approximately 13 million roadside assistance clients, consisting of approximately four million B2C personal members and approximately nine million B2B customers. Our personal membership base has historically remained relatively stable, despite cyclicality in the economy.

Our roadside assistance service offers 24-hour a day cover for cars, motorbikes, caravans, and vans that breakdown over a quarter of a mile from the home. This includes a tow to a nearby garage if the vehicle cannot be fixed at the roadside. The most common reasons for a call-out are problems with a vehicle's battery, tyres, engine, starter motor, clutch or lights. Calls from both personal members and B2B customers are taken at one of our two dedicated UK call centres. Our call centre in Oldbury focuses on service delivery and deploying patrols; our call centre in Cheadle focuses on roadside assistance sales, customer service and retention activities, and together with home-based teleworkers, offers excess capacity for emergency breakdown calls during busy periods. Approximately 90% of breakdowns are attended to by our national network of AA branded patrols and approximately 10% are served by a network of third-party garages, which provides flexibility during peak periods or in geographic areas with low demand.

In addition to our primary roadside assistance service, we offer three additional levels of cover for B2C personal members, consisting of Home Start, Relay and Stay Mobile, which are available for either vehicles or individuals (single, joint or family coverage), or for sale to the B2B market as part of product offerings:

Home Start: Provides our core roadside assistance service to breakdowns that occur within one-quarter of a mile from the home. This service is predominantly used to provide assistance when a vehicle is parked at home and experiences problems such as a flat battery in cold weather.

Relay: Provides recovery and transport of vehicles and up to seven passengers to anywhere in the United Kingdom. While our core roadside assistance service includes a tow to a nearby garage if the vehicle cannot be fixed on the roadside, this offering allows customers to either complete their planned journey or cancel their journey and have their car delivered to their home or garage of choice (often their local service provider).

Stay Mobile: Provides car rentals for up to three days, overnight accommodation or return public transport after a vehicle is transported to a garage for repair.

Cover levels provided to our B2B customers vary according to their requirements and, on average, represent lower levels of cover than that purchased by our personal members.

In addition to our primary roadside assistance service and our three additional levels of cover, we also have a number of complementary roadside products. Our additional product options include European Breakdown Cover ("**EBC**"), for personal members travelling in mainland Europe, and Breakdown Repair Cover ("**BRC**"), which works together with our primary roadside assistance service to help reduce repair costs following a breakdown.

With respect to our B2C personal member business, we employ a membership-based pricing model in which personal members are charged a fixed annual fee for our primary roadside assistance service. We regularly make introductory offers to attract new personal members, which may include offering enhanced levels of cover or vouchers for other AA products. When our personal members renew or upgrade their roadside service cover, we amend membership fees to implement price differentiation among our personal members based on individual customer data and pricing optimisation models, which are proprietary to the AA. All memberships are offered on an insured basis (*i.e.*, personal members pay a periodic fee rather than pay based on usage). Approximately 89% of our personal members pay their annual membership fee in advance, while the remaining 11% pay monthly. Non-members who request roadside assistance are required to sign up to an insured contract (at a level of cover that is appropriate).

Our personal membership base has historically featured relatively high renewal rates, which typically increase with the tenure of the membership. The current average tenure of our personal members base is approximately 11 years and approximately 1.5 million of our personal members have maintained their roadside assistance cover for over 10 years and of these 800,000 have been personal members for over 20 years, respectively. On average, our personal members require assistance for a vehicle breakdown once every two years and, as a result, our personal members benefit from their membership on a regular basis. To encourage customer loyalty and increase retention, we also offer a tiered membership scheme whereby our personal members are offered free membership upgrades that provide access to a range of product enhancements. There are currently two tiers of loyalty membership, Silver and Gold:

Silver: Offered to personal members of over one year and includes accident assistance, 24-hour a day EBC, family associates cover for those under the age of 17 years and free expert advice on legal and motoring matters.

Gold: Offered to personal members of over five years and includes accident assistance, 48-hour EBC, family associates cover for those under the age of 17 years, free expert advice on legal and motoring matters and £500 worth of key insurance cover.

Our B2B customer base consists of approximately nine million customers, which are split across four categories:

Added value current accounts: The AA provides breakdown cover to Lloyds Banking Group customers as part of their package of benefits associated with AVAs. We have an exclusive relationship with the Lloyds Banking Group, which is one of the largest UK-based banking groups, covering Lloyds, Halifax and the Bank of Scotland. According to industry sources, we currently have a share of approximately 50% of the AVA market by cover.

Car manufacturers: Car manufacturers provide breakdown cover to their customers as part of new or used car warranties sold by franchised dealers. We have relationships with over 20 of the leading car manufacturers operating in the UK market, seven of which have been in place for over 10 years and 13 of which have been in place for over five years. Our well-established relationships with these car manufacturers are partly due to our ability to provide them with important statistical data such as vehicle faults and performance information. We currently have contracts, among others, with Ford and General Motors, two of the top car manufacturers in the United Kingdom. According to industry sources, we currently have a share of approximately 42% of the car manufacturer breakdown market by cover.

Fleet and leasing companies: Commercial fleet companies (such as Hertz) and lease companies (such as LeasePlan) offer breakdown cover to their customers for an additional fee. Cover is also provided for companies with large fleets of vehicles (such as British Telecom). According to industry sources, we have a share of approximately 56% of the fleet market by cover and relationships with approximately 21 fleet and lease companies.

Insurance: Insurance companies provide breakdown cover either as part of their offer of insurance to customers (with or without premium increase) or as a stand-alone product. According to industry sources, we have a share of approximately 11% of the insurance market by cover. We purposefully limit our exposure to this market.

Our B2B partners typically enter into contracts with us for a duration of three to five years, and most opt to extend the term of the contract. Over the last five years, one major B2B partner has not opted to renew its contract with us, and it is common for contracts to renew prior to their expiration. We have limited concentration among our B2B partners, the top 10 customers accounting for 13.7% of our total turnover. Prior to the separation of the Lloyds Banking Group into Lloyds Bank and TSB Bank in September 2013, Lloyds Banking Group accounted for 9.5% of our total turnover in the twelve months ended 31 July 2013.

The following table highlights some of our current B2B partner relationships:

B2B Partners	Type of Company
Lloyds TSB	Added Value Accounts
Chevrolet	Car Manufacturer
Ford	Car Manufacturer
General Motors	Car Manufacturer
Honda	Car Manufacturer
Jaguar/Land Rover	Car Manufacturer
Toyota	Car Manufacturer
BT Fleet	Fleet/Leasing Company
Enterprise	Fleet/Leasing Company
GE Capital	Fleet/Leasing Company
Hertz	Fleet/Leasing Company

While our B2B contracts include a number of contracts priced on a fixed annual price-per-vehicle-covered basis, the majority of our B2B contracts are priced on a pay-for-use ("**PFU**") basis. In addition to the profit and scale efficiencies derived from our B2B contracts, these relationships can provide the opportunity to gain new personal members when the initial period of manufacturer cover provided by our B2B partner ends. Following the expiration of this initial period of manufacturer cover, certain of our B2B partners provide us with the contact information of those customers that will no longer be eligible to receive AA roadside assistance service as part of their initial package of benefits. As such, we are able to increase our personal member base by offering former B2B customers the opportunity to join the AA at introductory prices.

Within our roadside assistance segment, we also generate revenue through products and services delivered through our own patrol force, including the sale of parts for repair at the roadside ("Parts"), of which battery sales is the largest, removal of the wrong fuel from a vehicle ("Fuel Assist"), provision of specialised locksmith skills ("Key Assist") and delivery of a rental car when local repair cannot be arranged ("Relay Plus"). We also provide automotive glass repair and replacements services through AA Autowindshields. This business principally operates business services contracts on a PFU basis for insurance underwriters (including Acromas Insurance Company Limited) and fleet and leasing companies.

Roadside Operational Systems and Deployment Model

We have developed and implemented the following sophisticated operational systems and deployment models that we use to maximise cost efficiency and customer service requirements based on experience.

Patrol Contribution Model: To further strengthen the operational efficiency of our highly experienced roadside assistance patrols, we implemented a patrol contribution model in April 2011, which we use to measure each patrol's performance with reference to customer service, operational efficiency and sales performance. The patrol contribution model enables us to track each patrol's performance and provide additional training and support to our patrols as necessary, which has resulted in increased repair rates, improved job times and higher breakdown attendance rates per patrol shift.

Resource Deployment Models: To match our patrol resources to seasonal, daily and weekly customer demands and to provide additional flexibility to address short-term workload fluctuations, we have developed resource deployment models that maximise our operational and costs efficiencies. For example, we rely upon separate "patrol rostering models" for the summer and winter months to calculate the optimal number of patrols required on the road to service workload forecasts generated from historical experience. Consequently, approximately 90% of breakdowns are attended to by our national network of AA branded patrols.

Deployment Systems: We have developed a sophisticated in-house deployment and service delivery system that automates deployment decisions and tracks both customer location and status, as well as the availability of our resources in order to maximise customer service and cost efficiency.

Flexible Patrol Employment Contracts: To manage patrol costs in connection with seasonal and short-term fluctuations in workload, our patrol contracts provide for flexible hours, including contractual and non-contractual overtime, standby hours and pay-per-job arrangements, which enables us to ensure our AA-branded patrols are available during busy periods, resulting in higher patrol attendance and lower costs than using third-party garage networks.

Integrated Communication Systems: To further increase operational efficiency and repair rates, we have equipped our vans with mobile data terminals that display contact details and breakdown history for our personal members and B2B customers. In addition, the data terminals allow our patrols to receive breakdown information, communicate with our call centres, locate customers and access technical data to diagnose vehicle faults. Our communications systems allow us to track operational performance and job status in order to maximise the effectiveness of our deployment systems.

Insurance Services

Our insurance services segment consists of insurance broking, home emergency and financial services. In addition, we are considering the provision of AA-branded legal services through our insurance services segment.

Insurance Broking

We offer motor, home, travel and other specialist insurance policies to both roadside assistance personal members and non-members.

Motor Insurance: Motor is the largest insurance product for the AA by revenue and had approximately 700,000 policies in force as at 31 July 2013. We offer a number of motor insurance packages, including comprehensive cover, third-party fire and theft cover and telematic insurance for new drivers which uses data collected from an in- car device to assess a driver's specific driving characteristics. Our comprehensive motor insurance cover includes liability to others for injury or damage to property, travel abroad (up to 90 days across EU countries), damage to vehicle when in the custody of garage staff or valet service, damage caused by accident, fire or theft, replacement locks and keys, personal belongings inside the vehicle and a variety of other items. For an additional charge, we offer optional extras, such as motor legal assistance, excess protection, car hire and a car accident plan. As of 31 January 2013, approximately 65% of our motor insurance customers were also personal members, but only 11% of our personal members had purchased our motor insurance cover.

Home Insurance: Home is the second largest insurance product for the AA by revenue and had approximately 900,000 policies in force as at 31 July 2013. We offer two home insurance packages: AA Buildings Insurance and AA Contents Insurance. Our AA Buildings Insurance cover includes the structure of the home, loss or damage caused by fire, smoke and other elements, a 24-hour a day home emergency helpline, alternative accommodation costs, accidental damage and a variety of other items. Our AA Contents Insurance cover includes household goods and valuables and personal belongings. For an additional charge, we offer optional extras such as legal expenses cover, home emergency cover, home emergency response and buildings insurance. As of 31 January 2013, approximately 44% of our home insurance customers were also personal members, but only 6% of our personal members had purchased our home insurance cover.

Travel and Other Insurance: We offer a number of other smaller lines of insurance, including travel, caravan, motorcycle, commercial vehicle and pet. Collectively, these accounted for less than 1% of our total turnover for the twelve months ended 31 July 2013.

We operate an insurance underwriting panel business model. The underwriting panel, which is made up of third-party underwriters and Acromas entities outside the AA Group, provides premiums for each customer enquiry against the insurance product specified by the AA. Insurers place their pricing models for each of their underwriting schemes on our systems, which allow us to compare individual panel member prices to find the lowest prices for our customers. We regularly monitor the creditworthiness of our underwriting panel members to limit the potential risk of credit failure and any adverse impact on our customers.

We use diverse panels for both our motor and home insurance offerings, which include many of the UK's major motor and home insurance underwriters, respectively. In the twelve months ended 31 July 2013, the motor panel consisted of 23 underwriter schemes and the home panel consisted of 18 underwriter schemes. Prospective insurance customers come to us for a competitive insurance quote through one of our distribution channels (e.g., phone, direct through our Internet website or via PCWs). The panel members provide us with an insurance premium to which we add our commission (derived from our actuarial models that are designed to maximise customer value over a three-year period), the combination of which results in the price offered to the customer. According to our view of customer value, we may discount these insurance premiums to attract new customers or to retain existing customers. In addition, in the future, we may conduct underwriting activities through AAG, and reinsure those policies through ARCL.

We actively engage with our panel insurers to ensure that we offer competitive prices, which includes regular review by us and optimisation of rates by the underwriters themselves. Significant management resources are dedicated to monitoring and improving the performance of the panel and we regularly monitor panel share and underwriting performance for each panel participant.

In March 2013, we entered into a joint agreement with the law firm of Lyons Davidson Limited to begin providing consumer focused legal services to our roadside assistance personal members. Pending approval of this arrangement by the Solicitors Regulation Authority, we will be able to offer AA-branded legal services to personal members at the point of breakdown.

Home Emergency

We launched our home emergency service in 2010 and according to industry sources, we are currently one of the top three branded home emergency service providers in the United Kingdom based on number of customers. Our home emergency service currently include the following:

Home Emergency Response: provides 24-hour a day assistance from skilled tradesmen for home emergency events, such as plumbing leaks, blocked drains and power loss;

Emergency Boiler Cover: provides cover for boiler breakdown repairs and an annual boiler service; and

Boiler and Central Heating Cover: provides complete boiler and central heating cover (emergency and non-emergency claims) and an annual boiler service.

We market our home emergency services largely through cross-sales to our roadside assistance personal members and insurance customers, as well as through introductory offers to new customers both on-line and through our call centres. As of 31 January 2013, approximately 62% of our home emergency customers were also personal members, but only 7% of our personal members had purchased our home emergency cover. B2B relationships are also a source of home emergency turnover and, as of October 2012, we began supplying home emergency cover to Lloyds TSB's Premier Account holders. In addition to the products described above, we also offer basic home emergency cover to home insurance customers through an "add-on" product marketed as "Home Emergency Cover." Our business has grown from approximately 328,000 covered homes as of 31 January 2011 to approximately 1.1 million covered homes as of 31 July 2013, including B2B customers.

Home emergency services are provided by an in-house team of approximately 110 dedicated engineers in yellow AA-branded vans as of 31 July 2013, who are targeted to respond to approximately 80% of plumbing, boiler and central heating emergencies. The remaining workload is supported by third-party contractors who are also equipped to respond to specialist home emergencies (e.g., glazing, home security and pest infestation). This operational model is based on our roadside assistance operational model, where third-party contractors are used to support our in-house resources and to provide services in geographic areas with low demand. Our home emergency service engineers also rely on our roadside assistance deployment and resource planning systems.

Financial Services

Our financial services intermediation products include a variety of banking products and life insurance policies, which we distribute through white-label, commission-only partnerships with our banking and life insurance partners. Our banking products include fixed-term savings accounts, personal loans and credit cards and are sold under the AA brand through our B2B partners Birmingham Midshires (Lloyds Banking Group), The Co-Operative Bank and MBNA (Bank of America). The primary route to market for our banking products is through best-buy tables in newspapers and online marketing. Our life insurance policies are provided by Friends Life (Resolution) and are typically marketed directly to our roadside assistance personal member base. As of 31 July 2013, our financial services intermediation customers accounted for approximately £2.9 billion in savings deposits with our business partner, Lloyds Banking Group. Furthermore, as of the same date, we had approximately 137,000 savings account customers, approximately 32,000 credit card customers and approximately 17,000 life insurance customers.

Driving Services

Our driving services segment consists of our driving schools, AA DriveTech and our media business.

Driving Schools

The AA Driving School is the largest driving school in the United Kingdom. We acquired BSM in 2011, which is the oldest driving school in the country and continues to operate under its own brand. The AA and BSM are market leaders, with a combined share of pupils estimated at approximately 20% of the market according to industry sources. In the year ended 31 January 2013, the AA and BSM provided driving lessons to approximately 149,000 pupils via approximately 2,900 franchised instructors. Both the AA and BSM offer driving lessons and instructor training through a franchise model. The majority of turnover from the driving schools comes from weekly franchise fees paid by instructors, who receive in return a car and support from the brand. In addition, instructors pay a fee for each pupil introduction referred by our call centres or our website.

AA DriveTech

AA DriveTech was formed in 1990 and became part of the AA Group in 2009. AA DriveTech is one of two market leaders providing driver education courses, with a business model specifically designed for commercial and professional drivers, principally through corporate contracts. AA DriveTech has the following four divisions:

DriverAware: Delivers educational driver awareness schemes to members of the public as an alternative to getting points on their license. The main scheme in which we participate is the National Driver

Offender Retraining Scheme ("**NDORS**"). We currently have contracts with 14 of the 44 police forces in England and Wales. During the twelve months ended 31 July 2013, DriverAware accounted for 73% of AA DriveTech revenues.

FleetSafe: Provides training on fleet management best practices. Fleet operators include Sainsbury's, Royal Mail and Johnson & Johnson.

Commercial and Passenger Vehicle: Provides the required training to coach and lorry drivers to receive the new Certificate of Professional Competence, which becomes a legal requirement for coaches and lorries in 2013 and 2014, respectively.

Other: Includes a license checking service (mainly to our fleet clients) and our academy for instructor training.

Media

We offer a number of driving related media products and services, as well as publishing titles, which are reported under the driving services business segment. These include the AA Routeplanner website, which served an average of approximately 2.4 million routes a week during the year ended 31 January 2013, a suite of AA branded mobile apps, which have been downloaded approximately 3.9 million times to date, the sale of AA-branded road traffic signs for use at events, other "car essentials"(including high visibility vests, jump leads and AA-branded maps) and the hotel and restaurant inspection and rating service.

AA Ireland

We offer four key products in Ireland for vehicles and homes, which broadly mirror our product offerings in the United Kingdom: (i) road membership, with 24-hour a day roadside assistance for vehicles; (ii) motor insurance, with policies underwritten by a panel of underwriters; (iii) home insurance, with AA branded home insurance policies underwritten by a third-party insurer and (iv) home emergency response, with call-out home rescue teams to address home emergencies. As of 31 July 2013, we had approximately 114,000 roadside assistance personal members and approximately 158,000 B2B customers, as well as approximately 108,000 motor insurance customers and approximately 65,000 home insurance customers in Ireland.

As with our UK operations, our roadside assistance service represents the largest source of turnover for our AA Ireland segment. Approximately 76% of our received call-outs in Ireland are attended by our own branded patrol force of 104 vehicles. AA Ireland roadside assistance membership includes such additional benefits as the Ask AA helpline for expert motoring advice and an AA Car Service. We also offer breakdown cover through car manufacturers and fleet and leasing companies. We also have a specific contract with a leading Irish bank to provide marketing material on breakdown cover to holders of a premium credit card product.

Cross sales and direct mail between home and motor insurance customers represent a significant source of new business in Ireland. Other acquisition channels include the Internet, telesales and distributor conversions. Despite the challenging economic climate in Ireland, turnover (in constant currency terms) generated in connection with our Irish segment has remained relatively stable between 2011 and 2013.

Other

In addition to our four core segments, historically we also engaged in reinsurance underwriting, which we conducted through our reinsurance underwriting vehicle, ARCL. Historically, ARCL made up the entirety of our insurance underwriting segment in our results of operations. Although ARCL did not engage in any reinsurance activities during the year ended 31 January 2013, in July of this year it began reinsuring certain policies insured by one of our affiliates, AICL. We intend for AICL to cease underwriting the type of insurance policies reinsured by ARCL from 1 November 2013. In addition, in the future, we may conduct underwriting through AAG, and reinsure those policies through ARCL. On 26 June 2013, we transferred the entire share capital of ARCL from TAAL to the Company. In addition, on 24 October 2013, Acromas Bid Co Limited transferred all the share capital and assets of AAG to the Company. The Company will be able to underwrite its own policies through AAG and target customer segments where our panel members are less competitive. AAG has not written any policies to date and requires regulatory approval to do so. Under the terms of our financing arrangements, we may prepare and present future consolidated financial statements for an AA Group entity other than the Company. As a result of the transfer described above, the results of operations of ARCL will not be reflected in any of the Company's subsidiaries' results of operations or reported on going forward. Furthermore, AAG has not historically been, and will not in the future, be reflected in any of the Company's subsidiaries' results of operations. The AA Group also includes two insurers that have not written any new business for a number of years and are in run off, with AAUL not having had any transactions since 2000 and AAUSL ceasing to write personal lines business in 2009.

Operations and Departments

Our employees work in the following teams and departments:

Road Operations

Our award-winning road operations team is responsible for the delivery of high quality roadside assistance to our customers 24-hours a day, 365 days a year. In addition to being recognised as the highest rated of the major providers of roadside assistance by *Which?* in each of the past six years, we were chosen as the "FIA European Patrol of the Year" in 2011. As well as deploying and managing our approximately 3,000 strong patrol force in the United Kingdom, the team also engages with our contracted garages to ensure that our customers receive the same level of service they would expect from the AA. Our road operations team is based in our Oldbury and Basingstoke offices and employed an average of 4,437 employees during the year ended 31 January 2013.

Call Centres

Our sales and administration call centres are based in Cheadle for the roadside assistance segment and Newcastle for the insurance services segment. These centres are responsible for selling our roadside assistance and insurance services products over the telephone, responding to service and product questions from the public, as well as our important retention activities. The roadside assistance call centre employed an average of 927 employees during the year ended 31 January 2013 and the insurance services call centre employed an average of 932 employees for the same period.

Group Database, Management Information and Pricing

The database, management information and pricing teams analyse the significant volume of data produced by the business, which we in turn use to enhance our marketing campaigns, target potential and existing customers and better personalise our product pricing, thereby improving our recruitment and retention rates overall. The database, management information and pricing teams employed an average of 48 employees during the year ended 31 January 2013.

Marketing

Our marketing team has responsibility for all roadside assistance, insurance services and driving services marketing activities across our range of on-line and off-line marketing channels. We market all of our services under the AA brand and the marketing team is responsible for monitoring the effectiveness of each campaign and developing improved ways of communicating with our customers. The marketing team employed an average of 243 employees during the year ended 31 January 2013.

Driving Services

The driving services team provides management and administration of our leading driving schools, AA DriveTech and our media related activities. The team is also responsible for our driving services call centre operations, which engage with potential and existing pupils and course attendees. The driving services team employed an average of 490 employees during the year ended 31 January 2013.

Ireland

Our business in Ireland follows the overall structure of our business in the United Kingdom with regards to its roadside assistance, call centre and sales and service operations. The Irish segment employed an average of 439 employees during the year ended 31 January 2013.

Head Office

Our head office provides a number of support functions and consists of the following teams:

Human Resources: ensures that all staff related processes (e.g., recruitment, payroll functions, disciplinary procedures) are carried out in line with company policy and comply with relevant legislation.

Information Technology: focuses on the maintenance of our existing IT infrastructure, including monitoring servers and system maintenance and development across the business.

Commercial Finance: supports the business through financial analysis and decision support activities across all commercial areas and is responsible for non-transactional financial control procedures.

Finance Shared Services: processes all finance transactions, including paying all invoices, collecting all outstanding debts and banking all monies received, and ensuring that financial processes are carried out in line with company policy and comply with relevant legislation.

Compliance, Risk and Internal Audit: monitors all company processes to ensure that they are carried out in line with company policies and comply with relevant legislation.

Complaints and Special Investigation Unit: ensures that any customer complaints or investigations into customer service are dealt with promptly and properly to ensure effective customer outcomes.

The head office division employed an average of 533 employees during the year ended 31 January 2013.

Competition

Roadside Assistance

The market for UK roadside assistance is concentrated, with a small number of players maintaining strong market positions. Our main competitors in the roadside assistance market are the RAC and Green Flag. According to industry sources, together the AA, the RAC and Green Flag cover over 80% of the market. The remaining share is covered by smaller providers which are typically subsidiaries of larger insurance groups, including Britannia Rescue, Europe Assistance, Mondial Assistance and AXA Assistance.

We believe there are significant barriers to entry for potential competitors in the roadside assistance market. No competitor has entered the market and achieved a level of scale comparable to the AA since the 1970s. Green Flag entered the UK market in 1971 and operates an independent contractor-based model at a slightly lower price point to the AA. We primarily face competition from the RAC, Green Flag and other smaller providers (e.g., Mondial) in the B2B market, particularly as major contracts come up for renewal. However, since B2B contracts are generally longer than B2C contracts, there is a relatively low level of churn in contracts in any year.

For additional information on the roadside assistance industry in the United Kingdom, see "*Industry*."

Insurance Services

The UK motor and home insurance markets are highly competitive and we face ongoing competition from both established and new competitors. The large number of companies active in these markets and the increasingly wide availability of distribution platforms also contribute to the competitive nature of this market. We have historically faced competition from other insurance brokers (whether store-based, telephone-based or online), including Swinton, Budget, Tesco, Hastings, RIAS, Kwik Fit, Endsleigh and A-Plan. In addition, a number of insurance brokers have developed or are developing their own in-house underwriting capabilities.

We also increasingly face competition from direct insurers, which include Direct Line Group, Admiral, Aviva, LV, AXA, RSA, Ageas, Co-op and eSure. A number of these businesses have been preparing for sale or initial public offerings over the past 18 months, resulting we believe in an increased level of competition as competitors build their insurance books through aggressive pricing behaviour. See "*Risk Factors—Risks Relating to our Business and Industry—Our insurance broking business faces significant competition from competitors who may be larger and have access to greater financial or other resources, including global, national and local insurance companies*."

The development of PCWs in recent years has increased the level of competition for our business, as they provided customers with quick and easy access to different policies from a range of different insurers. Moneysupermarket.com, Gocompare.com, Confused.com and Comparethemarket.com are the main participants in this market. See "*Risk Factors—Risks Relating to our Business and Industry—We are exposed to further changes in the competitive landscape within the insurance industry, including increased competition from other distribution channels (particularly price comparison websites), the long-term implications of which are not yet fully understood*." As the market penetration of PCWs has matured and we have adapted our distribution model accordingly, these websites have become an important distribution channel for our motor and home insurance business.

We are one of the leading branded participants in the home emergency market, together with British Gas and HomeServe. According to industry sources, British Gas is the market leader in boiler and central heating cover, while HomeServe has focused on developing affinity relationships with utility and water companies. Given the less mature nature of the home emergency market, and the fact that approximately 70% of UK households are currently uncovered, the impact of competition on our home emergency business has been limited to date. In addition, we believe that a substantial proportion of British households do not have any form of home emergency cover and thus there is substantial room for growth.

The non-insurance financial services products that we offer through our B2B partners include savings accounts, unsecured loans, credit cards, currency cards and life insurance. We face significant competition in all these product lines from both major UK banks and international banks active in the United Kingdom (e.g., Lloyds Banking Group, RBS, Barclays, HSBC, Santander), insurance companies (e.g., RSA, AXA, Aviva) and non-bank financial services companies (e.g., Nationwide, Tesco Bank, Sainsbury's Bank, Virgin Money, M&S Money, Post Office).

For additional information on the insurance services industry in the United Kingdom, see "*Industry*."

Driving Services

The UK driving schools market is highly fragmented. According to industry sources, the AA and BSM are, together, the largest driving school in the country with approximately 2,900 franchised instructors and a combined share of pupils estimated at approximately 20% of the market. The next largest national competitor is RED Driving School. Given the fragmented market we also face competition from local participants and a large number of independent, non-affiliated driving instructors. During economic downturns we increasingly face competition from non-professional instructors (i.e., parents and friends), as it is not a legal requirement to have lessons from a fully qualified driving instructor ahead of a UK driving license test.

The market for driver training schemes through contracts with police forces is significantly less fragmented, with two participants (including AA DriveTech) accounting for approximately 92% of the market, (based on number of contracts) that has been outsourced to date. We have contracts with 14 of the 44 police forces in England and Wales and according to industry sources, our only competitor approaching this scale is TTC Group.

AA Ireland

We are the market leader in both the B2C and B2B segments of roadside assistance in Ireland according to industry sources and we differentiate ourselves through our branded network of approximately 80 patrols, as opposed to relying on networks of independent garages. RAC left the roadside assistance market in 2007 and its operations were taken over by our now primary competitor, Hibernian (Aviva). Green Flag is not present in the Irish roadside assistance market. We face competition from insurance companies, including AXA, Aviva, Mapfre and Allianz, as well as from a number of smaller online competitors, including Breakdowncover.ie and Car Protect.

The motor and home insurance markets are competitive and we face competition from both other insurance brokers and from direct insurers, including AXA, Aviva, Liberty, FBD, Zurich, RSA and Allianz. There is no meaningful presence of PCWs in the Irish motor and home insurance market. Home emergency response is a nascent market in Ireland, with no Irish equivalents to traditional UK providers like British Gas and HomeServe.

Intellectual Property

We have registered the domain name "www.theaa.com." We are also the registered owner of numerous community trademarks and national trademarks in several Member States including the United Kingdom and Ireland including "AA," "The Fourth Emergency Service," "BSM" and "DriveTech." We have also entered co-existence agreements with certain counterparties to regulate the use of the AA" trademark and colour scheme within the United Kingdom and elsewhere. See "*Risk Factors—Risks Relating to Our Business and Industry—We may not be able to protect our brand and related intellectual property rights from infringement or other misuse by others and we may face claims that we have infringed the trademarks or other intellectual property rights of others*."

Real Property

The following table sets forth certain information with respect to the facilities that we currently operate and which we believe are of importance to our operations. All the following properties are located in the United Kingdom.

LOCATION	USE OF FACILITY
Fanum House, Basingstoke, Hampshire	Head Office
Centrica House, Swallowfield One, Birchley Playing Fields, Wolverhampton Road, Oldbury, West Midlands	Emergency Breakdown Call Centre
Lambert House, Stockport Road, Cheadle SK8 2DY	Sales and Administration Call Centre
Carr Ellison House, William Armstrong Drive, Newcastle Business Park, Newcastle Upon Tyne NE4 7YA	Sales and Administration Call Centre
Unit 1, Fleming House, Fulwood Court, Pittman Way, Preston, Lancashire	Glass Business Offices
St. Patrick's House, Penarth Road, Cardiff(1)	Driving School Call Centre

(1) We currently occupy and use our Driving School Call Centre in Cardiff; however, we intend to relocate our Driving School Call Centre to 3 Callahan Square, Cardiff, CF10 5BT in the near future.

Employees and Pension Obligations

As of 1 October 2013, approximately 62% of AA Group employees were members of the IDU, which is the only formal trade union recognised by the AA Group. General terms of employment are regulated by a perpetual Union Recognition Agreement. We also have a legacy collective agreement in place, the terms of which apply to certain employees hired prior to 1 January 1996. We have not had any strike activities among our patrols or administrative and call centres in recent years and we believe that we have a positive relationship with our work force.

	Year ending 31 January		
	2011	**2012**	**2013**
Operational	6,558	7,156	7,154
Management and Administration	1,302	1,422	1,548
Total number of employees	**7,860**	**8,578**	**8,702**

The AA Group operates two defined benefit pension schemes: (i) the AA UK Pension Scheme and (ii) the AA Ireland Pension Scheme. The AA UK Pension Trustee and the AA Ireland Pension Trustee were granted shared super senior security over assets up to a value of £150 million in respect of certain liabilities relating to the AA UK Pension Scheme and £10 million in respect of certain liabilities relating to the AA Ireland Pension Scheme by the certain subsidiaries of Topco and the Borrower on 2 July 2013. The terms of this security and certain other agreements with the trustees regarding other pensions issues, such as scheme funding and guarantees, are set out in the AA UK Pension Agreement and the AA Ireland Pension Deed.

The AA UK Pension Scheme is the largest scheme operated by the AA Group and according to the last completed actuarial valuation, which was carried out as at 31 March 2010, the AA UK Pension Scheme had a funding deficit of approximately £87 million and assets of approximately £1,222 million. The 2013 Valuation is currently being conducted for the AA UK Pension Scheme. We estimate that the funding deficit with respect to the AA UK Pension Scheme as at 31 March 2013, was approximately £200 million, which is slightly higher than our prior estimate of approximately £180 million, which was made at the time of the Refinancing. However, the funding deficit for the purposes of the finalised 2013 Valuation will depend on the assumptions we agree with the AA UK Pension Trustee, which are not yet final. In light of the increased deficit in the context of the 2013 Valuation, we intend to implement the ABF, which will provide the AA UK Pension Scheme with an inflation-linked income stream over 25 years (with the first annual payment expected to be in the region of £12 million), which is intended to address the funding deficit that will be disclosed in the 2013 Valuation. Typically, funding deficits are addressed over a much shorter period than 25 years and, in order to secure the AA UK Pension Trustee's agreement to this longer 25-year term under the ABF, the AA UK Pension Trustee's existing security will be released and replaced with first-ranking security (through the ABF structure) over our brands up to a value of £200 million. A non-binding term sheet setting out the terms of the ABF was previously agreed with the AA UK Pension Trustee and appended to the otherwise binding AA UK Pension Agreement. The documents required to implement the ABF are currently being negotiated and we intend to implement the ABF in conjunction with the 2013 Valuation documents. If the ABF is not implemented, then the AA UK Pension Trustee's security will remain at its present value of £150 million. There can be no assurance that the funding deficit with respect to the AA UK Pension Scheme will not increase in the future, whether or not the ABF is implemented, which may result in materially higher payments to the AA UK Pension Scheme being required to address such increased deficit.

The AA Ireland Pension Trustee's security will remain in place irrespective of whether the ABF is implemented in respect of the AA UK Pension Scheme.

As a result of a recent law change, certain employers in the United Kingdom are now required to automatically enrol eligible employees (who are not already members of a qualifying pension scheme) into a qualifying pension scheme with a minimum level of employer contributions. The AA Group became subject to these obligations with effect from 1 April 2013. The AA Group has automatically enrolled 2,656 eligible employees who were not already members of a qualifying pension scheme (such as the AA UK Pension Scheme) into a separate group personal pension plan operated by a third party pension provider, of which 293 opted out, resulting in an additional pension cost of approximately £0.8 million per annum.

See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Other Financial Obligations—Pension Obligations*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures about Financial Risk—Pension Risks*."

Training and Recruitment

In addition to our existing apprentice and training schemes, we are planning to launch an apprentice academy in the near future. The apprentice academy will enable us to train and develop skilled staff, including patrol technicians, electricians, plumbers and call centre operators.

Environmental Matters

We are subject to a variety of laws and regulations relating to petrol/diesel disposal and environmental protection. We believe that we are in substantial compliance with applicable requirements of such laws and regulations. However, we could incur costs, such as fines and third-party claims for property damage or personal injury, as a result of violations of or liabilities under environmental laws and regulations.

Insurance

We have insurance coverage under various insurance policies for, among other things, property damage, our technical and office equipment and stock, our patrol vehicles, as well as coverage for business interruption, terrorism and

directors and officers. We do not have insurance coverage for all interruption of operations risks because in our view, these risks cannot be insured or can only be insured at unreasonable terms. For example, cyber-attacks on our website could come from anywhere in the world and would therefore not be covered by the business interruption insurance. There is also no insurance coverage against the risk of failure by personal members to pay. We also have insurance policies covering employer and public liability, as well as for errors and omissions that may occur when broking insurance (professional indemnity, which is required under the FCA regulatory regime).

In our view, the existing insurance coverage, including the amounts of coverage and the conditions, provides reasonable protection, taking into account the costs for the insurance coverage and the potential risks to business operations. However, we can provide no assurances that losses will not be incurred or that claims will not be filed against us which go beyond the type and scope of the existing insurance coverage.

Legal Proceedings

We are involved in a number of legal proceedings that have arisen in the ordinary course of our business. We do not expect the legal proceedings in which we are involved or with which we have been threatened, either individually or in the aggregate, to have a material adverse effect on our business, financial condition and results of operations. The outcome of legal proceedings, however, can be extremely difficult to predict with certainty, and we can offer no assurances in this regard.

Regulatory Environment

Under the Financial Services Act 2012, the FSMA was amended with effect from 1 April 2013 to affect a new regulatory regime in the United Kingdom. Under the new regime, firms previously regulated by the FSA were allocated to one of the two new regulators, the PRA (broadly for banks and insurers) and the FCA (for insurance intermediaries and investment firms), for their prudential supervision.

The AA Group contains two insurance intermediary companies in the United Kingdom, AAISL and Drakefield Insurance Services Limited ("**DISL**"), which are both authorised and regulated by the FCA. These intermediaries are currently subject to limited minimum capital requirements (the higher of £5,000 and 2.5% of annual income from the regulated activities of each intermediary). Both AAISL and DISL have capital resources in excess of their minimum capital requirements.

The AA Group also has two authorised insurance underwriting companies in the United Kingdom, AAUL and AAUSL. However, AAUL ceased underwriting insurance policies in 1998 and has no reserves as at 31 July 2013. AAUSL ceased underwriting activities in 2009 and had reserves of £0.3 million as at 31 July 2013.

AA Developments Limited currently carries on and TAAL, to the extent not already transferred to AA Developments Limited as a part of the Separation, carries on the roadside assistance business of the AA Group under an exemption for breakdown assistance providers from needing authorisation as regulated insurers provided certain conditions are met. See "*Regulatory Overview—Breakdown Insurance Exemption*."

For further details on the regulatory regime affecting the AA Group, see "*Regulatory Overview*."

TAAL is currently authorised as a general insurance intermediary in Jersey (as more fully described under "*Regulatory Overview—TAAL Jersey Regulatory Overview*") and the AA Group also has a licensed insurance intermediary in Ireland.

TAAL is incorporated in Jersey and is regulated by the Jersey Commission as a registered person under the Financial Services (Jersey) Law 1998 to carry on general insurance mediation business, as more fully described under "*Regulatory Overview—TAAL Jersey Regulatory Overview*." Consequently, TAAL is subject to certain requirements imposed by Jersey law, which, among other things, requires prior approval from the Jersey Commission to transfer direct and indirect ownership in TAAL or appoint a liquidator or an administrator or to perfect any assignment of title to or enforce any security interest granted in respect of the share capital of TAAL or any parent company of TAAL.

Material Contracts

For the twelve months ended 31 July 2013, our 10 largest B2B partners accounted for 13.7% of our total turnover, of which the single largest partner is Lloyds Banking Group. In September 2013, Lloyds Banking Group separated its TSB business from Lloyds. Prior to the separation of the Lloyds Banking Group into Lloyds Bank and TSB Bank, Lloyds Banking Group accounted for 9.5% of our total turnover in the twelve months ended 31 July 2013. In the future, we expect to have a separate contract with TSB, which we expect will offset the reduction in turnover as a result of the separation of Lloyds and TSB by a corresponding amount. The contract with Lloyds Banking Group is due for renewal in March 2014, and we are currently in negotiations to renew this contract. Birmingham Midshires, an affiliate of Lloyds Banking Group, also distributes our financial services intermediation products. See "*Risk Factors—Risks Relating our Business and Industry—Our business relies on key contractual relationships with certain corporate customers, and the loss of any such corporate customers could have a material adverse effect on our business, financial condition and results of operations.*"

REGULATORY OVERVIEW

Introduction

The majority of the regulated business of the AA Group is UK insurance intermediation business carried on through AAISL and, to a lesser extent, DISL. There is also a small amount of regulated insurance business written by AAUL and AAUSL, although both of these companies are now in run-off. TAAL also writes insurance business which would otherwise be regulated, however, as it writes breakdown assistance only it is exempt from the general requirement that firms carrying out insurance business in the UK be regulated. In addition, TAAL conducts certain insurance intermediation activities, predominantly in the UK, as an appointed representative of AAISL and as a registered person in Jersey under the Financial Services (Jersey) Law 1998.

General

Regulation of the financial services industry in the United Kingdom is set out in the Financial Services and Markets Act 2000 ("**FSMA**") which requires providers of financial services in the UK to be authorised and regulated by the relevant regulatory authority. In December 2012, under the Financial Services Act 2012 (the "**Act**"), FSMA was amended with effect from 1 April 2013 to effect a new regulatory regime in the United Kingdom. Under the new regime, firms previously regulated by the Financial Services Authority were allocated to one of the two new regulators created by the new regime, the PRA and the Financial Conduct Authority ("**FCA**") for their prudential supervision. The PRA is responsible for the prudential regulation of all banks, insurers and some designated investment firms. Although the PRA is responsible for the prudential regulation of these firms, they are in fact dual-regulated as the FCA regulates their conduct of business and consumer protection. For other financial services firms, including insurance intermediaries, fund managers and investment firms, the FCA is the sole regulator in both prudential and conduct matters.

An authorised firm must comply with the requirements of FSMA as well as the supplementary rules made by the PRA and FCA, as the case may be, under powers granted by FSMA. There are a number of regulatory handbooks, but some important sources of the rules, and accompanying guidance, relevant to the insurance and insurance intermediary businesses undertaken within the AA Group include the General Prudential Sourcebook ("**GENPRU**"), the Prudential Sourcebook for Insurers ("**INSPRU**"), the Prudential Sourcebook for Mortgage and Home Finance Firms and Insurance Intermediaries ("**MIPRU**") and the Insurance Conduct of Business Sourcebook ("**ICOBS**"), as well as the PRA and FCA's principles for businesses.

Insurers

Subject to certain exemptions, no person may carry on insurance business in the United Kingdom unless authorised to do so by the PRA (acting with the consent of the FCA). The PRA and FCA, in deciding whether to grant permission, are required to determine whether the applicant satisfies the threshold conditions set out in Schedule 6 of FSMA to be engaged in insurance business and, in particular, whether the applicant has and will continue to have appropriate resources, and that it is and will continue to be a fit and proper person having regard to the objectives of the PRA and the FCA (including in both cases whether those who manage the applicant's affairs have adequate skills and experience and are conducted soundly and with probity). A permission to carry on insurance business may also be subject to such requirements as the PRA (with consent to the FCA) considers appropriate.

In specific circumstances, the PRA and/or FCA may vary or cancel an insurer's FSMA permission to carry on a particular class or classes of business or insurance business generally. The circumstances in which the PRA and/or FCA can vary or cancel a FSMA permission include a failure to meet the threshold conditions or where such action is desirable in order to protect the interests of consumers or potential consumers.

The AA Group has two authorised insurance underwriting companies in the United Kingdom, AAUL and AAUSL. These companies are, however, closed to new business and are now in run-off, AAUL having ceased underwriting in 1998 and AAUSL in 2009. Both these companies are regulated by the PRA as insurers, however, the PRA and FCA have agreed that the lead regulator for the group is the FCA on the basis that it is responsible for the larger and ongoing regulated business of the insurance intermediaries, in particular, AAISL.

Insurance Intermediaries

Insurance intermediaries are authorised and regulated by the FCA and, similarly to insurers, must comply with certain conditions relating to capital and liquidity, corporate governance and risk management and controls, among others. These requirements are set out in Schedule 6 FSMA and further supported by the provisions of the FCA Handbook. The PRA Handbook does not, however, apply to insurance intermediaries. Due to the nature of intermediation business generally lower prudential requirements apply than those for insurers. The FCA has the power to cancel or vary a firm's permission, or to withdraw a firm's authorisation, under the same regime applicable to authorised insurers.

The AA Group contains two insurance intermediary companies, AAISL and DISL, which are both authorised and regulated by the FCA. Both of the AA Group's UK insurance intermediaries are subject to relatively limited minimum capital requirements (the higher of £5,000 and 2.5% of annual income from the regulated activities of the intermediary). Both AAISL and DISL have capital resources in excess of their minimum capital requirements.

Supervision and Enforcement

The PRA and FCA have extensive powers to supervise and intervene in the affairs of an authorised person under FSMA. For example, they can require firms to provide information or documents or prepare a "skilled persons" report (a power which has recently increased in scope under FSMA and is likely to be increasingly used). They can also formally investigate a firm. The PRA and FCA have the power to take a range of disciplinary enforcement actions, including public censure, restitution, fines or sanctions and the award of compensation. From recent publications of the PRA and FCA, the method of supervision will shift to a key risks approach by each regulator and the "ARROW" supervisory process will change to a form of continuous supervision. Such ongoing supervision is intended to become more intrusive, for example, in the FCA's remit, by analysis of an insurer's product development and a new business model assessment procedure.

Breakdown Insurance Exemption

TAAL, a subsidiary of the Company incorporated in Jersey, is the entity responsible for the provision of our roadside assistance business. The Financial Services and Markets Act (2000) (Regulated Activities) Order 2001, which sets out activities which are regulated in the United Kingdom under FSMA, contains an exemption under Article 12 for breakdown insurance providers from the general requirement of persons carrying on insurance business to be authorised by the PRA under Section 19 of FSMA. TAAL currently benefits from this exemption and is not therefore required to be, nor is it, an authorised insurer for the purposes of FSMA. The roadside business of TAAL is in the process of being transferred to a UK company, AA Developments Limited ("**AADL**"), and AADL also operates under the same Article 12 exemption when carrying out the AA Group's roadside assistance business.

The relevant conditions that must be satisfied in order to qualify for the exemption are that:

(i) the provider does not otherwise carry on any insurance business;

(ii) the cover is exclusively or primarily for the provision of benefits in kind in the event of accident or breakdown of a vehicle; and

(iii) the policy provides that the assistance:

  (A) takes the form of repairs to or removal of the relevant vehicle;

  (B) is not available outside the United Kingdom and the Republic of Ireland, except where it is provided without the payment of additional premium by a person in the country concerned with whom the provider has entered into a reciprocal agreement; and

  (C) is provided in the United Kingdom or Republic of Ireland, in most circumstances, by the provider's own work force under its direction rather than through an outsourcing arrangement.

Approved Persons

FSMA (as amended by the Act) gives the FCA and the PRA powers and responsibilities over individuals carrying on certain roles within the UK financial services industry. These roles are described as "controlled functions" and the individuals performing them are described as "approved persons". Approved persons are typically individuals. However, a body corporate can be an approved person, for example, if the body corporate is a director of an authorised firm.

The controlled functions which an approved person performs are functions which have been identified by the FCA and PRA as being key to the operations of the approved persons regime in accordance with the provisions of Part V of FSMA. They are divided between "significant influence functions" and "the customer dealing function". Significant influence functions include governance functions, required functions, systems and controls or any significant management function. They are typically relevant to a firm's directors, non-executive directors, chief executive officer, compliance officer, chief risk officer and heads of significant departments, among others. The customer dealing function covers persons dealing with an authorised firm's customers or property. However, it does not apply to general insurance business and therefore is not relevant to the authorised entities in the AA Group. A person must have regulatory approval before they can perform any of these controlled functions.

All relevant persons in AAUSL, AAUL, DISL and AAISL (being the authorised firms in the AA Group) are approved persons. As such, they are subject to certain ongoing obligations for which they are personally accountable to the FCA and/or the PRA. They are expected to be fit and proper persons, they must satisfy standards of conduct that are

appropriate to the role they perform and, in particular, they must comply with the Statements of Principle and Codes of Practice issued by the FCA and the PRA and contained in APER in both the FCA and PRA Handbooks. As a result of the Act, the scope of the Statements of Principle in APER now extends to conduct expected of approved persons not just in relation to the controlled functions that they perform, but also in relation to other functions they perform in connection with their firms' regulated activities. The FCA and PRA have wide-ranging powers under FSMA to act against any person who fails to satisfy these standards of conduct or who ceases to be fit and proper, including withdrawal of their approved status, granting a prohibition order, disciplinary action and/or fines.

Solvency II

The Solvency II Directive (2009/138/EC), an insurance industry directive adopted by the EU in November 2009 ("**Solvency II**") and subsequently amended in September 2012 (2012/23/EU), will provide a new prudential framework for insurance companies. The new approach will be based on the concept of three pillars—minimum capital requirements, supervisory review of firms' assessment of risk, and enhanced disclosure requirements—and will cover valuations, the treatment of insurance groups, the definition of capital and the overall level of capital requirements. A key aspect of Solvency II is that the assessment of risks and capital requirements will be aligned more closely with economic capital methodologies, and will allow insurers to make use of internal capital models, if approved by the PRA. There remains considerable uncertainty surrounding the interpretation of the provisions of Solvency II with more detailed level 2 implementing measures, binding technical standards and non-binding standards, guidance at level 3 and/or delegated acts yet to be finalised. The "Omnibus II Directive" is expected to be adopted by the EU during 2014 (the European Parliament have scheduled the plenary vote on the Omnibus II Directive for Q1 2014) which will, among other things, amend Solvency II in respect of the powers of the European Insurance and Occupational Pensions Authority ("**EIOPA**"), the new European Supervisory Authority, responsible for insurance.

Full implementation of Solvency II has been delayed until at least 2016. On 2 October 2013 the European Commission put forward a draft directive postponing the application date of Solvency II to 1 January 2016. EU Commissioner Michel Barnier has invited co-legislators to reach agreement as soon as possible on this draft directive and the Omnibus II Directive. In addition, EIOPA issued its final guidelines for the preparation of Solvency II on 27 September 2013 and expects to issue them in all official EU languages on 31 October 2013 with an application date of 1 January 2014. The guidelines aim to increase preparedness of insurers and supervisors once the Solvency II regime is in force. In response, the PRA has announced that it plans to publish for consultation a Supervisory Statement in relation to the guidelines. The Supervisory Statement will include expectations of UK firms from 1 January 2014. One particular aspect of the PRA's supervision of insurance is its current expectation that all capital instruments meet Solvency II criteria regarding the definition of capital, and that, until Solvency II criteria are fully implemented, insurers should anticipate the enhanced quality of capital that will be needed, when issuing or amending capital instruments. The insurance business of AAUSL and AAUL is, however, in run-off with relatively few remaining liabilities and the FSA had previously agreed to limit the minimum capital requirements for AAUL. Therefore the impact of Solvency II on the AA Group's capital solvency requirements after the Separation should be minimal.

TAAL Jersey Regulatory Overview

TAAL is incorporated in Jersey and holds a consent (the "**COBO Consent**") issued by the Jersey Commission pursuant to the Control of Borrowing (Jersey) Order 1958 to issue up to 50,000 shares of a nominal value of £1.00 each. As such, TAAL must comply with statutory requirements under the Companies (Jersey) Law 1991 and the conditions of its COBO Consent. The Jersey Insurance Law sets out the insurance business, which, if carried out in or from within Jersey, would require the person carrying on the business to be an authorised person regulated in Jersey by the Jersey Commission. The Insurance Business (General Provisions) (Jersey) Order 1996 contains an exemption under Article 2 for accident or breakdown insurance from the requirement to be authorised by the Jersey Commission under the Jersey Insurance Law. TAAL currently benefits from this exemption and is not therefore required to be, nor is it, an authorised insurer for the purposes of the Jersey Insurance Law.

TAAL is regulated by the Jersey Commission as a registered person under the Financial Services (Jersey) Law 1998 to carry on general insurance mediation business (including incidental general insurance mediation business) (a) in addition to carrying on (i) any class of financial service business other than general insurance mediation business, or (ii) any other business authorised under the Banking Business (Jersey) Law 1991, the Collective Investment Funds (Jersey) Law 1988 or the Insurance Business (Jersey) Law 1996; or (b) as a company that is part of a group, where another part of the group carries on (i) any class of financial service business other than general insurance mediation business, or (ii) any other authorised under the Banking Business (Jersey) Law 1991, the Collective Investment Funds (Jersey) Law 1988 or the Insurance Business (Jersey) Law 1996. As such, TAAL is required to comply with the Codes of Practice for General Insurance Mediation Business issued by the Jersey Commission (the "**Codes of Practice**"). The Codes of Practice set out the principles for the conduct of business and TAAL is responsible for following the principles and implementing such practices as it considers necessary for the proper management and control of its business. Broadly, the Codes of Practice require TAAL to: (1) conduct its business with integrity; (2) have due regard to the interests of its customers; (3) organise and control its affairs effectively for the proper performance and management of its business and be able to demonstrate the existence of adequate risk management systems; (4) be transparent in its business arrangements; (5) maintain and be able to demonstrate the existence of

adequate capital resources to enable it to meet its liabilities; (6) deal with the Jersey Commission and other authorities in Jersey in an open and co-operative manner; and (7) not make statements that are misleading, false or deceptive. The Codes of Practice set out further regulatory requirements respect of each of these principles.

TAAL has been granted an exemption by the Jersey Commission from the requirement to comply with the Financial Services (General Insurance Mediation Business (Accounts, Audits, Reports and Solvency)) (Jersey) Order 2005 and the Financial Services (General Insurance Mediation Business (Client Assets)) (Jersey) Order 2005 on grounds that it is an appointed representative of an insurance intermediary that is authorised under FSMA.

The Insurance Business (Jersey) Law 1996 (the "**Jersey Insurance Law**") sets out the insurance business, which, if carried out in or from within Jersey, would require the person carrying on the business to be an authorised person regulated in Jersey by the Jersey Commission. The Insurance Business (General Provisions) (Jersey) Order 1996 contains an exemption under Article 2 for accident or breakdown insurance from the requirement to be authorised by the Jersey Commission under the Jersey Insurance Law. TAAL currently benefits from this exemption and is not therefore required to be, nor is it, an authorised insurer for the purposes of the Jersey Insurance Law.

The relevant conditions that must be satisfied in order to qualify for the exemption are that the general business must consist of the effecting and carrying out, by an insurance company that carries on no other insurance business, of contracts under which the benefits provided by the insurer are exclusively or primarily benefits in kind in the event of accident to or breakdown of a vehicle and which contains the following terms:

(i) that, subject to such restrictions as may be set out in the contract, the assistance shall normally be available on demand;

(ii) that the assistance shall normally be provided by the insurer's servants or exceptionally by garages acting as the insurer's agents or appointed by the insurer;

(iii) that the assistance may take any one or more of the following forms:

(A) repairs to the relevant vehicle at the roadside;

(B) removal of the relevant vehicle to another place;

(C) conveyance of the relevant vehicle's occupants to another place;

(D) delivery of parts, fuel, oil, water or keys to the relevant vehicle; and

(E) reimbursement of the policy holder for all or part of any sums paid by the policy holder in respect of the assistance either because the policy holder failed to identify himself or herself as the policy holder or because the policy holder was unable to get in touch with the insurer in order to claim the assistance.

MANAGEMENT

The Company

The Company is a private limited liability company incorporated and existing under the laws of England and Wales with registered number 05149111. The address for all members of the board of directors of the Company is Fanum House, Basing View, Basingstoke, Hampshire, RG21 4EA, United Kingdom.

The table below sets forth the name, age and current position of each member of the board of directors of the Company as of the date of this Report.

Name	Age	Position
Mr. Andrew Goodsell	54	Chairman of the Board
Mr. Andrew Strong	49	Chief Executive Officer
Mr. Andy Boland	43	Chief Financial Officer
Mr. James Arnell	44	Director
Mr. Pev Hooper	40	Director
Mr. Stuart Howard	51	Director
Mr. Philip Muelder	38	Director

In the future, our principal shareholders may decide to appoint an independent non-executive chairman of the Board, non-executive directors or other directors, each of which may not have had a prior affiliation with the Company.

The following is a summary of the business experience of the current board of directors of the Company.

Mr. Andrew Goodsell. In 2007, Mr. Goodsell became Chief Executive of Acromas Holdings and Executive Chairman of the AA and Saga. Prior to becoming Chief Executive of Acromas Holdings, Mr. Goodsell joined Saga Services as Business Development Manager in 1992, became Saga Group Business Development Director in 1995, Chief Executive of Saga Services and Saga Investment Direct in 1999, Deputy Group Chief Executive in 2001, and Chief Executive in 2004.

Mr. Andrew Strong. Mr. Strong has served as Chief Executive Officer of the AA since September 2007. Prior to joining the Company, Mr. Strong was Chief Operating Officer at Saga Services, having joined that business in 2001. Saga Services is an insurance intermediary focusing on the UK over 50s market. During his time at Saga Services, Mr. Strong oversaw the establishment of the Group's in-house underwriting business, as well as major income, IT and operational change projects.

Mr. Andy Boland. Mr. Boland has served as Chief Financial Officer of the AA since October 2008. Prior to joining the Company, Mr. Boland was Group Finance Director at Taylor Nelson Sofres plc, a FTSE 250 market research company, which he joined in 2004. During his time at Taylor Nelson Sofres, Mr. Boland helped integrate acquisitions, strengthened the financial control environment, particularly around working capital and cash management, and was responsible for all external reporting and investor relations activities. Mr. Boland qualified as a Chartered Accountant in 1995 and qualified as an Associate Corporate Treasurer in 1998.

Mr. James Arnell. Mr. Arnell joined Charterhouse in 1997 from Bain & Company. At Charterhouse, he has worked extensively in the United Kingdom and France on a number of transactions, including Cegelec, PHS, TDF, Saga, Acromas, Elior, TSL, Lucite and Fives. He is a non-executive director on the boards of Acromas, PHS and Elior. Mr. Arnell is an honours graduate in Law from Downing College, Cambridge University and is a qualified barrister.

Mr. Pev Hooper. Mr. Hooper is a Partner at CVC Capital Partners. In addition to the AA, Mr. Hooper is responsible for CVC's investments in Merlin Entertainments, Acromas and Virgin Active. Prior to joining CVC in 2003, he worked in mergers and acquisitions at Citigroup and Schroders. Mr. Hooper holds an MA degree from Oxford University.

Mr. Stuart Howard. In 2007, Mr. Howard became Chief Financial Officer of Acromas Holdings. Prior to becoming Chief Financial Officer of Acromas Holdings, Mr. Howard joined Saga in 2000 as Group Chief Financial Officer. Prior to joining Acromas, he worked for two years at the advertising group Cordiant Communications plc as Deputy Chief Financial Officer and for 10 years prior to that at the advertising group WPP Group plc in various positions. Mr. Howard qualified as a Chartered Accountant at KPMG in London.

Mr. Philip Muelder. Mr. Muelder is a Partner at Permira focused on the Financial Services sector, a new investment area that he helped establish for Permira in 2008. In addition to the AA and Acromas, Mr. Muelder has also worked on Permira's investment in Just Retirement, the UK's leading enhanced annuities retirement specialist. Prior to joining Permira in 2004, Philip worked at Bain & Co and Goldman Sachs. Mr. Muelder has an MBA from Harvard Business School and a Master in Accounting and Finance from the London School of Economics.

Senior Management

Set forth below is information concerning the senior management of the AA Group as of the date of this Report.

Name	Age	Position
Mr. Andrew Strong	49	Chief Executive Officer
Mr. Andy Boland	43	Chief Financial Officer
Mr. Steve Dewey	52	Operations Director
Mr. Michael Cutbill	51	Marketing Director
Mr. Simon Douglas	48	Pricing and Panel Director
Mr. Brendan Nevin	49	Chief Operating Officer
Mr. Rob Scott	40	Financial Controller

The shareholders are currently considering candidates for the chief executive position of the AA Group. This could result in the appointment of a new chief executive in 2014 or earlier. The following is a summary of the business experience of our senior management, other than those senior managers listed above under "—*The Company*."

Mr. Steve Dewey. Mr. Dewey has served as Operations Director since 2004, having joined the AA in 1984 as a roadside patrolman. Mr. Dewey is also a Director of ACTA, an organisation that provides European Breakdown Assistance and is involved with a number of organisations concerned with road safety. Mr. Dewey holds an MBA in International Business.

Mr. Michael Cutbill. Mr. Cutbill has served as Marketing Director since 2007. Mr. Cutbill has over 15 years marketing experience. Prior to joining the company, Mr. Cutbill was Marketing Director at Saga Services, having joined that business in 1999. Saga Services is an insurance intermediary focusing on the UK over 50s market. Mr. Cutbill holds degrees from Oxford University and the INSEAD business school in France.

Mr. Simon Douglas. Mr. Douglas has served as Pricing and Panel Director since 2007. Mr. Douglas has over 25 years' experience in life assurance, pensions, healthcare and general insurance. Prior to joining the company, Mr. Douglas was employed by Munich Re as an actuary, having joined that business in 2006. Munich Re is a global reinsurance company. Before joining Munich Re, Mr. Douglas was employed by Standard Life (a major UK life assurance company) since 1986. Mr. Douglas is a fellow of the Faculty of Actuaries, having qualified in 1990.

Mr. Brendan Nevin. Mr. Nevin has recently been appointed Chief Operating Officer for the AA, having joined the group as Chief Executive Officer of the AA Ireland business in 2011. Mr. Nevin has over 25 years' international management experience. Prior to joining the company, Mr. Nevin was Director of Consumer Banking at Bank of Ireland, having joined that business in 2002. Mr. Nevin holds an MA from Trinity College, Dublin and a DipFM from the Association of Chartered Certified Accountants.

Mr. Rob Scott. Mr. Scott has served as Financial Controller since 2012. Prior to joining the Company, Mr. Scott held a number of senior positions within the Acromas and Saga Group, including Finance Director at Titan Travel, Acromas Holdings Group Chief Accountant, Acromas Holdings Head of Risk and Saga Head of Internal Audit. Mr. Scott joined the Saga Group in 2003. Mr. Scott qualified as a Chartered Accountant in 1998.

Committees

Our financial performance is subject to oversight by the following committees established at the level of the Company for the purposes of monitoring our activities.

Audit Committee

The Company has implemented an audit committee that is responsible for: monitoring and reviewing our internal financial controls, risk management systems and audit function; external auditor's independence and objectivity and the effectiveness of the audit process; and to develop and implement a policy on the engagement of, and to make recommendations to the board of directors in relation to the appointment of, external auditors. The members of the audit committee are James Arnell, Pev Hooper, Stuart Howard and Philip Muelder.

AA Remuneration Committee

The Company has implemented a remuneration committee, which is responsible for determining all matters concerning salary, other remuneration and benefits, employee share-based remuneration schemes, terms and conditions of employment, appointment or dismissal of a senior manager and amending the terms of employment agreements or share-based remuneration schemes. The members of the remuneration committee consist of all board members of the Company with the exception of Mr. Strong and Mr. Boland.

Compensation of Senior Management

The compensation of the members of our senior management has historically been determined by the Acromas remuneration committee. Annual bonuses have historically formed a part of our total compensation strategy and we will continue to consider providing bonuses on an annual basis for certain members of management in connection with our new long-term incentive plan. See "*—Long-Term Incentive Arrangements*." In addition, we currently have a customary directors and officers insurance policy. There is no contractual entitlement to any increase in our employees' basic salary and we reserve the right to revise salaries in line with performance or business needs. Other employment benefits include a car allowance or the use of a company car, private medical insurance, permanent health insurance, life insurance, and a contributory group personal pension plan. Until January 2013, annual bonuses for AA senior management were determined by the Acromas remuneration committee to ensure that the compensation for senior management was consistent with market rates and to reflect management's contribution to the long-term success of the AA Group. In the future, compensation decisions relating to AA senior management will be made by the AA Remuneration Committee as discussed above. See "*—AA Remuneration Committee*."

Long-Term Incentive Arrangements

Certain members of management and employees of the AA Group have invested in the ordinary shares of Acromas Holdings Limited. Our principal shareholders, Charterhouse Capital Partners, CVC Capital Partners and Permira Advisers and our senior management, intend to create a new long-term incentive plan within the AA Group for senior management. It is expected that the new long-term incentive plan will replace the ordinary shares of Acromas Holdings Limited that were granted to certain members of AA management in 2007 and thereafter, while management will retain their holdings in the ordinary shares of Acromas Holdings Limited that were acquired with reinvested proceeds from the sale of the Saga Group and AA Group to the Acromas Group. The terms of such plan are currently under negotiation and have not yet been agreed.

Share Ownership

For information on the share ownership of our directors and other members of senior management, please see "*Principal Shareholders*" and "*Certain Relationships and Related Party Transactions*."

PRINCIPAL SHAREHOLDERS

The Company is a wholly owned subsidiary of Acromas Bid Co Limited, a company registered in England and Wales. The ultimate parent of the Company is Acromas Holdings Limited whose registered office is at Enbrook Park, Folkestone, Kent CT20 3SE. The shareholders of our ultimate parent include funds controlled by Charterhouse (36%), funds controlled by CVC (20%) and funds controlled by Permira (20%).

Charterhouse Capital Partners. Charterhouse is a UK-based private equity firm that specialises in European leveraged buyouts. With a portfolio that includes financial services, industrial and manufacturing businesses, Charterhouse has approximately €7.1 billion of assets under management.

CVC Capital Partners. CVC is a UK-based private equity firm with offices throughout Europe, Asia and the United States. CVC has completed over 300 investments in a wide range of industries and currently has secured commitments of approximately $50.0 billion.

Permira Advisers. Permira is a UK-based private equity firm that specialises in the consumer, financial services, healthcare, industrials and technology and media sectors. Permira advises funds of approximately €20.0 billion.

The following table presents information about the ownership of the shares of the Company as of 31 July 2013.

	Number of Shares	% of Total Shares
	Ownership of Shares in the Company	
Charterhouse Capital Partners	35,849,131	36%
CVC Capital Partners	19,930,450	20%
Permira Advisers	19,933,273	20%
Employees	20,120,415	20%
Others	4,166,731	4%
Total	**100,000,000**	**100.0%**

Shareholders' Agreement

In September 2007, Acromas Holdings Limited and funds controlled by each of Charterhouse, CVC and Permira, among others, entered into an investment agreement (the "**Shareholders' Agreement**"), which sets forth, among other things: (i) the rights of shareholders to appoint and remove persons to and from the board of directors of Acromas Holdings Limited and each of its subsidiaries; (ii) agreements among the shareholders relating to the governance of the Acromas Group, the Saga Group and the AA Group; (iii) transfer restrictions in respect of shares held by each shareholder; and (iv) rights of each shareholder to initiate an initial public offering process.

Other

Except as disclosed in the table above, we are not aware of any person who, directly or indirectly, has an interest as beneficial owner in our ordinary shares which represents 5.0% or more of our issued and outstanding ordinary shares. Our principal shareholders have the same voting rights.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

From time to time, we may enter into transactions with related parties in the ordinary course of business. The following summarises all such agreements that are material.

Shareholders' Agreement

In September 2007, Acromas Holdings Limited and funds controlled by each of Charterhouse, CVC and Permira, among others, entered into the Shareholders' Agreement, which sets forth, among other things: (i) the rights of the shareholders to appoint and remove persons to and from the board of directors of Acromas Holdings Limited and each of its subsidiaries; (ii) agreements among the shareholders relating to the governance of the Acromas Group, the Saga Group and the AA Group; (iii) transfer restrictions in respect of shares held by each shareholder and (iv) rights of each shareholder to initiate an initial public offering process. See "*Principal Shareholders—Shareholders' Agreement*."

Separation and Transfer Services Agreement

Concurrently with the issuance of the Initial Class A Notes and the Class B Notes, the operations of the AA Group were separated from the Acromas Group and the Saga Group. However, the AA continues to be owned by Acromas and have certain shared responsibilities and trading relationships with the Acromas Group and the Saga Group. To formalise the Separation, the AA Group entered into the Umbrella Services Agreement. See "*Summary—Recent Developments—The Separation" and "—Umbrella Services Agreement*." In addition, we entered into a separation and transfer services agreement to provide for the transfer the entire share capital in ARCL from TAAL to the Company, the transfer of certain senior AA Group employees, including Andrew Strong, Andy Boland, Michael Cutbill, Simon Douglas and Rob Scott from a Saga Group company to an AA Group company, the implementation of separate insurance policies for each of the AA Group and the Acromas Group, the termination of the guarantees from the AA Group in connection with Acromas' Existing Senior Facility Agreement and the Former Mezzanine Facility Agreement and payments by the AA to the group treasury function within the Acromas Group and the replacement of the Acromas guarantee in favour of the AA UK Pension Scheme with a guarantee from the Borrower. See "*Summary—Recent Developments—The Separation*."

Umbrella Services Agreement

General

On 2 July 2013, AA Intermediate Co Limited ("**Holdco**") and Acromas Bid Co Limited entered into the Umbrella Services Agreement that governs the relationship between certain members of the AA Group, the Saga Group and the Acromas Group and sets forth the terms and conditions on which certain services are provided between such members. Specifically, the Umbrella Services Agreement sets forth (i) the services that are provided by each party, (ii) the standard of service, (iii) the apportionment of liability as between the parties in the provision of such services, (iv) the procedure for varying the nature and duration of the services and (v) the charges apportioned as between the AA Group, the Saga Group and the Acromas Group for the provision of the relevant services to each group.

Services and Standards

The services governed by the Umbrella Services Agreement include group-wide services such as legal, information technology, treasury, tax, pension, payroll and other administrative services, project and procurement management, property management services, compliance and risk management functions and fleet management services, among others. In providing a service under the Umbrella Services Agreement, each party is required to provide at least the same standard, scope and quality as those provided in the 12-month period immediately preceding the entry into the Umbrella Services Agreement, in all material respects.

Transfer of Employees

The Umbrella Services Agreement specifies and governs the basis on which certain senior AA-dedicated employees who were contractually employed by the Acromas Group or the Saga Group (but whose costs have historically been recharged to the AA Group) were transferred to the AA Group. The transfers commenced in September and all employees have been transferred.

Termination and Cost

The Umbrella Services Agreement will continue for an indefinite term. Certain of the services provided under the Umbrella Services Agreement may be (1) terminated for convenience by either party on six months' notice or (2) terminated immediately by either party in the event that (i) any member of the AA Group, the Saga Group or the Acromas Group becomes subject to an administration order, winding up, or appointment of a receiver, (ii) a material breach by either party of the Umbrella Services Agreement, (iii) any member of the AA Group, the Saga Group or the Acromas Group fails to pay for any of the services provided under the Umbrella Services Agreement or (iv) Acromas Holdings Limited ceases to indirectly wholly own the shares of (a) Topco, (b) Holdco, (c) AA Acquisition Co Limited or (d) the Borrower. Costs in respect of the

inter-group trading relationships covered by the Umbrella Services Agreement are charged to each of the AA Group and the Saga Group, on the basis of the proportionate allocation of resources. Additionally, Holdco and Acromas Bid Co Limited may not assign any of the rights or subcontract the performance of any of the services or obligations without the prior written consent of the other party.

Pre-existing Contracts

The Umbrella Services Agreement also lists a number of commercial arrangements that exist between the AA Group, the Saga Group and the Acromas Group for the provision of services, including underwriting of AA products by Acromas, fulfilment of roadside assistance and AA home emergency services for the Saga Group by the AA Group and mailing, printing services, credit hire and claims management services provided by the Saga Group. However, the Umbrella Services Agreement does not apply to these existing relationships, as the parties thereto have entered into separate contracts for the provision of these services on a continuing basis following the Separation.

Governing Law

The Umbrella Services Agreement is governed by English Law.

Business Transfer Deed

On 2 July 2013, TAAL and AADL entered into the Business Transfer Deed, pursuant to which TAAL agreed to sell, and AADL agreed to buy, the business of TAAL as a going concern and the legal and beneficial title to substantially all the income producing assets of TAAL. In connection with the sale, AADL assumed all the liabilities of TAAL, as well as agreed to pay the book value of the assets to be transferred. The transfers commenced in September and all employees and pension arrangements have been transferred and the process of transferring property interests, customers and suppliers is in progress. No impact on the Group's operations or trading performance is expected to arise from this transfer. Pending the occurrence of the transfer of each asset from TAAL to AADL, the Business Transfer Deed provides that TAAL shall hold such income producing assets on trust for AADL absolutely. See "*Summary—Recent Developments—The Migration*."

Tax

Saga Services Limited pays sums on account of corporation tax to HMRC on behalf of various group companies, including members of the AA Group, pursuant to a group payment arrangement and Saga Group Limited pays sums on account of VAT to HMRC as the representative member of a VAT Group that includes members of the AA Group, the Acromas Group and the Saga Group. Each of these arrangements necessitates members of the AA Group making payments on account of their corporation tax liability and/or net VAT liability to Saga Services Limited and Saga Group Limited respectively. In relation to those members of the AA Group that form part of the Topco Restricted Group, such payments are regulated under the Tax Deed of Covenant.

Members of the AA Group are able to surrender available tax losses to and accept surrenders of available tax losses from members of the Acromas Group and the Saga Group, and to enter into other tax transactions with members of the Acromas Group and the Saga Group. In the case of those members of the AA Group that form part of the Topco Restricted Group, such transactions are regulated under the Tax Deed of Covenant. The surrender of available tax losses from the Topco Restricted Group companies to the Acromas Group or the Saga Group companies or vice versa must be for consideration equal to the tax value of the losses surrendered and any other tax transactions entered into between the Topco Restricted Group companies and Acromas Group and Saga Group companies may only be entered into if any such tax transaction leaves each member of the Topco Restricted Group, taken together, and each member of the Acromas Group and the Saga Group, taken together, in no worse net economic position than they would have been in had such tax transaction not taken place.

The Tax Deed of Covenant places certain restrictions on the surrender of tax losses between members of the Acromas Group and the Saga Group and members of the Topco Restricted Group. A member of the Topco Restricted Group may accept a surrender of tax losses from a member of the Acromas Group or the Saga Group only after (i) any member of the Topco Restricted Group which has tax losses for the relevant accounting period has agreed to surrender all such losses exclusively to other Topco Restricted Group members and (ii) any Acromas Group or Saga Group member which has tax losses for the relevant accounting period which relate to an arm's length loan granted by a bank or other financial institution has agreed to surrender all such losses exclusively to other Topco Restricted Group members.

See "*Summary—Recent Developments—The Separation*" and "*Summary—Recent Developments—Taxes*" for a description of our business following the Refinancing.

Long-Term Incentive Arrangements

Certain members of management and employees of the AA Group have invested in the ordinary shares of Acromas Holdings Limited. However, our principal shareholders and senior management intend to create a new long-term incentive plan within the AA Group, which will replace certain ordinary shares held by members of AA management. For more information on our long-term incentive arrangements, see "*Management—Compensation of Senior Management—Long–Term Incentive Arrangements*."