AA INTERMEDIATE CO LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JANUARY 2014

Company registration number: 5148845

Strategic report

Principal activity and review of business developments

AA Intermediate Co Limited and its subsidiary undertakings (together "the Group") are part of the AA Limited group which is the largest part of the Acromas group (Acromas Holdings Limited and its subsidiary undertakings), a privately owned organisation backed by Charterhouse Capital Partners, CVC Capital Partners and Permira Advisers, three substantial private equity firms.

The Company is an Obligor and a parent company of each of the other Obligors that provide security and guarantees under the financing arrangements entered into by the AA on 2 July 2013. The Company's immediate parent is AA Mid Co Limited. There is no material difference in the financial conditions and results of operations between the AA Intermediate Co Limited Group and the AA Mid Co Limited group other than the amounts owed to parent undertaking of £1,204.8 million which are eliminated to £nil for the AA Mid Co Limited group.

The AA is the largest roadside assistance provider in the United Kingdom, representing over 40% of the market. With 109 years of operating history, the AA has become one of the most widely recognised and trusted brands in the United Kingdom recognised nationally as 'the 4th Emergency Service'. The AA is also a leading provider of insurance broking and driving services.

The business is characterised by stable and predictable revenue streams, strong operating margins and high cash conversion. In the year ended 31 January 2014, 88% of total revenue was from repeat business and we continue to see progressive improvements in retention performance.

The AA brand is supported by the visibility of our 3,000 dedicated patrol vehicles throughout the UK, as well as our signage, publishing and hotel accreditation services. Our reputation for service excellence is evident through independent surveys that indicate high levels of satisfaction. The AA has achieved the highest overall test score of the major roadside assistance providers for every year since 2007, as assessed by 'Which?'. The AA was confirmed as the UK's most trusted brand (excluding charities and the armed forces) by Y&R's Brand Asset Valuator survey in 2014.

Customer loyalty underpins the AA business and is particularly strong in the Roadside Assistance area, where the average tenure for personal members is circa. 11 years, with 1.5 million personal members having been with the AA for more than 10 years and 800,000 of those members having been with the AA for more than 20 years.

The AA also continues to grow its market share in the roadside assistance business services market, with recent wins of the Hyundai, Porsche and Volkswagen Group contracts and the successful retention of the Lloyds Banking Group and Ford contracts.

The AA is also one of the leading insurance brokers in the United Kingdom and has a long history of distributing motor, home and other insurance products to both personal members and non-members, with approximately 2.3 million policies currently in force. The AA also delivers its home services product to approximately 1.1 million households and offers customers a range of competitive financial services products including savings, loans and credit cards.

The AA owns both the AA Driving School and British School of Motoring, making it the largest driving school in the United Kingdom, with approximately 2,900 franchised instructors teaching individuals to drive or how to become driving instructors. In addition, within the Driving Services business, the AA also has market leadership in the provision of fleet training services and administration of speed awareness courses for police forces in the UK.

The AA also competes in Ireland across all these segments and has historically provided reinsurance to the motor underwriting activities elsewhere in the Acromas group (disclosed under the Insurance Underwriting segment).

As the majority of UK companies of similar scale report under International Financial Reporting Standards, the Directors have converted the AA results from the previous UK Generally Accepted Accounting Practice (GAAP) basis to provide more comparability with other businesses. The impact of this change on the income statement is small but can be seen in note 37 to the financial statements.

Strategic report *(continued)*

Principal activity and review of business developments *(continued)*

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

Year ended 31 January	2014	2013	2012
Trading Revenue (£m)	973.6	971.0	978.7
Trading EBITDA (£m)	422.9	394.6	368.1
Trading EBITDA margin[1] (%)	43.4%	40.6%	37.6%
Net cash inflow from operating activities before tax (£m)	396.9	352.7	331.3
Cash Conversion[2] (%)	93.9%	89.4%	90.0%
Capital Expenditure	39.1	32.3	47.0
Capital Expenditure as % of Trading EBITDA	9.2%	8.2%	12.8%

1 Trading EBITDA divided by revenue arising within operating segments
2 Net cash inflow from operating activities before tax divided by Trading EBITDA

The Group has delivered growth of 7.1% in Trading EBITDA, principally as a result of growth in income per personal member in its Roadside Assistance business and through the delivery of cost saving plans.

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

Group Trading Revenue increased to £973.6 million in the year ended 31 January 2014 (2013: £971.0 million; 2012: £978.7 million) primarily through growth in Roadside Assistance. In the year to 31 January 2013, revenue decreased due to the curtailment of Insurance Underwriting activities. Excluding Insurance Underwriting, the Group achieved sales growth of 0.3% (2013: 1.9%).

Group operating profit increased to £372.2 million in the year ended 31 January 2014 (2013: £320.6 million; 2012: £308.5 million). Group Trading EBITDA, which gives a better view of the underlying trading of the business, showed growth of 7.1% to £422.9 million (2013: £394.6 million; £368.1 million) principally as a result of continued growth in Roadside Assistance and savings in Head Office costs.

Finance costs for the year were £154.9 million (2013: £11.3 million; 2012: £12.3 million) of which £115.9 million relates to the new Group borrowings. A further £29.1 million relates to the amortisation of debt issue fees of which £20.3 million was immediately written off following the early repayment of the Senior Term Facility. Finance income for the year was £0.3 million (2013 and 2012: £0.3 million).

Profit before tax for the year fell to £214.6 million following the increase in finance costs (2013: £312.7 million; 2012: £297.1 million). The current tax charge for the year of £7.5 million (2013: £73.3 million; 2012: £69.7 million) is lower than the UK Corporation tax rate as following the implementation of the asset-backed funding scheme on the AAUK pension scheme (see note 25), the Group secured a one-off tax deduction of £198.0 million. This was offset by a release from the pension deferred tax asset which was the main driver of the deferred tax charge for the year of £37.7 million (2013: £3.5 million; 2012: £5.6 million).

Strategic report *(continued)*

A retained profit after tax of £169.4 million (2013: £235.9 million; 2012: £221.8 million) has been taken to reserves. A dividend of £1,227.1 million was declared in the year (2013 and 2012: £nil).

Roadside Assistance

Year ended 31 January	2014	2013	2012
Trading Revenue (£m)	697.6	679.3	648.5
Trading EBITDA (£m)	343.9	318.8	299.3
Trading EBITDA margin (%)	49.3%	46.9%	46.2%
Personal Members ('000)	3,994	4,093	4,121
Business customers ('000)	8,514	8,652	8,601
Breakdowns attended ('m)	3.5	3.7	3.4
Average income per Member (£)	126	118	114

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

The Roadside Assistance growth in revenue in the year ended 31 January 2014 was driven by stable retention rates and an increase in the average income per member. Roadside personal members have fallen by 2.4% (2013: 0.7%) reflecting the decision to optimise revenue on the Roadside book. Income also increased due to higher workload from business customers who typically pay for the AA's services on a usage basis.

The increase in Trading EBITDA also reflects the performance of the operations teams in delivering efficiency gains during the course of the year, and the impact of the mild winter giving fewer peaks in workload as well as improved performance of the windscreen replacement business during the year.

Insurance Services

Year ended 31 January	2014	2013	2012
Trading Revenue (£m)	148.9	162.1	168.4
Trading EBITDA (£m)	89.4	93.1	87.3
Trading EBITDA margin (%)	60.0%	57.4%	51.8%
Policy numbers[1] ('000)	2,290	2,538	2,758

[1] Excluding business customers

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

Revenue for the year to 31 January 2014 has reduced to £148.9 million (2013: £162.1 million; 2012: £168.4 million) due to lower policy volumes and reduced ancillary income from motor insurance. This reduction in revenue has been partly mitigated in terms of Trading EBITDA and Trading EBITDA margin performance by the cost reduction initiatives implemented in the fourth quarter of the year ended 31 January 2013 with respect to call centre activities.

Insurance Services policy numbers in force reduced by 9.8% (2013: 8.0%) compared to the previous year which is primarily related to the lower level of new business sales achieved in motor insurance in the year.

Strategic report *(continued)*

Driving Services

Year ended 31 January	2014	2013	2012
Trading Revenue (£m)	87.5	91.3	93.7
Trading EBITDA (£m)	19.9	18.4	14.7
Trading EBITDA margin (%)	22.7%	20.2%	15.7%

The Driving Services segment contains the AA Driving School and the British School of Motoring, which are the two largest driving schools in the UK, as well as AA Drivetech, which provides driver training and educative programmes. The Driving Services segment also includes the AA's publishing and related media activities.

Revenue fell in the year due to the impact of the removal of unprofitable titles from the publishing business in the previous financial year, combined with a small reduction in pupil numbers across the AA's two driving schools.

Trading EBITDA grew by £1.5 million (2013: £3.7 million) driven by continued growth in AA Drivetech activities and savings on fleet costs within the driving schools. The Driving Services segment purchased VVCR Europe Holding BV in January 2014, a Dutch driver training company.

Ireland

Year ended 31 January	2014	2013	2012
Trading Revenue (£m)	39.6	38.3	42.3
Trading EBITDA (£m)	15.0	13.0	14.2
Trading EBITDA margin (%)	37.9%	33.9%	33.6%
Personal members ('000)	115	112	115
Policy numbers ('000)	172	177	176

The Ireland business competes in the same segment types as the AA UK business, with the largest parts of their business being Roadside Assistance and Insurance Services. Despite the difficult economic conditions in the Republic of Ireland, the business has continued to perform well demonstrating the resilience of the AA business model. The strengthening of the Euro compared to the comparative reporting period has also improved the Ireland results reported in Sterling.

Insurance Underwriting

Year ended 31 January	2014	2013	2012
Trading Revenue (£m)	-	-	25.8
Trading EBITDA (£m)	-	0.6	2.0
Trading EBITDA margin (%)	-	-	7.8%

The Insurance Underwriting segment consisted of the Group's reinsurance vehicle, Acromas Reinsurance Company Limited which reinsured certain private motor insurance business from the Acromas group's dedicated underwriter, Acromas Insurance Company Limited (AICL). As part of financing outlined below, the Group also sold this company on 2 July 2013 making a book loss of £3.4 million and reducing the Group restricted cash and cash equivalents by £1.6 million.

Strategic report *(continued)*

Head Office costs

Year ended 31 January	2014	2013	2012
Trading EBITDA (£m)	(45.3)	(49.3)	(49.4)

Head Office costs, which include IT, finance, property and other back office support functions, have reduced by £4 million (2013: decrease of £0.1 million) due to a group restructuring project as well as an on-going programme of cost management.

Financing transactions

On 2 July 2013, over £3.0 billion of debt was raised in the bank and capital markets pursuant to an investment grade secured corporate financing commonly referred to as a "whole business securitisation" (the "WBS") involving certain of the Company's subsidiaries which comprise the majority of the operating companies in the Group. It is a feature of the WBS that all bank and bond debt raised (including in the future) by these subsidiaries participating in our investment grade financing is substantially on common terms.

The WBS currently comprises the Initial Senior Term Facility and the Initial Working Capital Facility and certain Class A Notes. As at 31 January 2014, the principal amount outstanding under the Senior Term Facility was £913 million and a total of £1,475 million Class A Notes were in issuance. The Working Capital Facility was undrawn save for a £10 million ancillary facility, which has been used to issue letters of credit to certain corporate insurance providers.

The margin applied to interest payable on drawings under the Initial Senior Term Facility Agreement varies throughout the term from 3% per annum at year end to 4.25% per annum over LIBOR. Interest rate swaps have been put in place fixing LIBOR at 1.885% over the term of this facility. The Class A1, Class A2 and Class A3 notes in issuance have interest rates of 4.72%, 6.27% and 4.25% respectively and expected maturity dates of 31 July 2018, 31 July 2025 and 31 July 2020 respectively. Taken together, the overall weighted average interest rate as at 31 January 2014 for the Senior Term Facility and the Class A Notes was 5.0%.

Concurrently with the investment grade financing in July 2013, a high yield offering was completed of £655 million of secured notes involving AA Mid Co Limited (the immediate holding company of AA Intermediate Co Limited), and the Group. The Class B Notes have an expected maturity date of 31 July 2019, and an interest rate of 9.50%.

Immediately prior to the financing, the Group's balance sheet was restructured such that inter-company funding balances with the broader Acromas group were repaid or distributed, generating a non-cash dividend of £1,227.1 million. The proceeds from the borrowings were then loaned to AA Mid Co Limited leaving an inter-company debtor balance of £1,208.5 million as at 31 July 2013. Through a combination of the repayment of inter-company balances due to the Acromas group and the payment of dividends, these proceeds were ultimately used to repay existing borrowings of the Acromas group.

From the date of the financing the Group ceased the remittance of cash to Acromas group treasury, retaining these amounts within the Group.

Following the WBS on 2 July 2013, the operations of the AA Group have been separated from the Acromas group and Saga Limited and its subsidiaries (the "Saga group"). However, the AA continues to 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 agreement with the Acromas group that governs the relationship between certain members of the AA Group, the Saga group and the Acromas group.

Strategic report *(continued)*

Net debt and covenants	**At 31 January 2014**	**Estimate at time of refinancing[7]**
Senior Term Facility (£m)	913.0	1,775.0
Class A notes (£m)	1,475.0	625.0
Less cash and cash equivalents (£m)	(144.7)	(10.0)
Net Senior Secured Debt[1] (£m)	2,243.3	2,390.0
Class B notes (£m)	655.0	655.0
Finance lease obligations (£m)	20.0	25.4
Net Debt [2] (£m)	2,918.3	3,070.4
Leverage ratio[3]	6.9	7.6
Senior leverage ratio[4]	5.3	5.9
Proforma Class A Free Cash Flow : Debt Service[5]	3.3	3.2
Proforma Class B Free Cash Flow : Debt Service[6]	2.2	2.1

1 Principal amounts of the Senior Term Facility and Class A Notes less cash and cash equivalents
2 Principal amounts of the Senior Term Facility, Class A Notes, Class B Notes and finance leases less cash and cash equivalents
3 Ratio of Net Debt to Trading EBITDA for the last twelve months
4 Ratio of Net Senior Secured Debt to Trading EBITDA for the last twelve months
5 Ratio of last twelve months free cash flow to proforma debt service relating to the Senior Term Facility and Class A Notes, as if the Group had entered into these facilities on 1 February 2013
6 Ratio of last twelve months free cash flow to proforma debt service, as if the Group had entered into the Senior Term Facility, and issued the Class A Notes and Class B Notes on 1 February 2013.
7 Estimated figures reported in the prospectus prior to the initial financing transaction in July 2013

The combination of strong profit growth and robust cash conversion has resulted in a reduction of the leverage ratio from 7.6 times Trading EBITDA as at 30 April 2013 (pro forma) to 6.9 times Trading EBITDA at year end and the senior leverage ratio from 5.9 times Trading EBITDA to 5.3 times Trading EBITDA over the same period.

The Group has significant headroom within its Free Cash Flow:Debt service covenants on both an actual and pro forma basis and the Directors do not envisage this situation changing in the foreseeable future.

Further details on these borrowings are detailed in notes 20, 27 and 28 to the financial statements.

Strategic report *(continued)*

Financing transactions subsequent to the year end

Subsequent to the year end, the Group issued £250 million of Class A4 notes with an interest rate of 3.78% and an expected maturity date of 31 July 2019. The proceeds from this note issuance were used to partially repay the Initial Senior Term Facility.

Contemporaneously, a New Senior Term Facility and New Working Capital Facility were put in place with the Group's key relationship banks replacing the Initial Senior Term Facility and Initial Working Capital Facility respectively.

The margin on the New Facilities has been set at 2% per annum over LIBOR with a maturity date of 31 January 2019. Additional interest rate swaps have been entered into, fixing LIBOR at 1.98% until 31 July 2018 and then at 3.00% until 31 July 2019.

If the debt structure post this refinancing had been in place from 1 February 2013, the full year interest costs on the debt, excluding the amortisation of issue fees would have been £189.4 million.

Recent business developments and material contracts

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

On 29 November 2013, the Group completed the pension scheme triennial valuation, agreeing a deficit of £202 million with the Pension Trustees and implementing the asset-backed funding scheme on a substantially similar basis to that described within the governing documents of the Group's borrowings. This gives an annual deficit reduction contribution of £12.2 million, which increases with inflation over a period of up to 25 years secured on the Group's brands and generates a one-off £198 million tax deduction that the Group can utilise within the next two years. This compares with the traditional unsecured deficit reduction plan requiring the deficit to be removed over a substantially shorter period.

The transition of the Roadside Assistance business from The Automobile Association Limited to Automobile Association Developments Limited is now largely complete with only one property lease now outstanding. This process is expected to complete imminently. No impact on the Group's operations or trading performance has arisen from this transfer.

The Roadside assistance contract with Lloyds Banking group (which makes up almost 10% of Group revenue) has now been renewed for five years from April 2014.

The Group has continued to increase market share in the roadside assistance business services market with the recent wins of the Hyundai, Porsche and Volkswagen Group contracts which are expected to progressively benefit trading results. Overall the 10 largest business customer contracts account for almost 14% of Group revenue.

Strategic report *(continued)*

Cash flow, net debt and liquidity

Cash generation for the Group has been strong with net cash flow from operating activities before tax of £396.9 million (2013: £352.7 million; 2012: £331.3 million) and cash conversion of 93.9% (2013: 89.4%; 2012: 90.0%) for the year to 31 January 2014. Overall, improved profitability has led to a deleveraging of the Group since the original financing transaction. Net debt to Trading EBITDA was 6.9 times and net senior secured debt to Trading EBITDA was 5.3 times as at 31 January 2014, this compares to the respective Q1 2013 pro forma leverage ratios of 7.6 times and 5.9 times. The pro forma leverage calculations show the position had the debt package been put in place on 1 February 2013.

The Group had a cash and cash equivalents balance of £144.7 million, invested in AAA money market funds, giving overnight access and high liquidity. The Group has not drawn on its Working Capital Facility and does not currently expect to do so. The Group is required to hold segregated funds as 'restricted cash' in order to satisfy regulatory requirements governing our insurance underwriting business and Irish subsidiaries.

The Group covenants comparing free cash flow to debt service are set out in this report on the basis of the last twelve months and so will show an unrealistic view of the position until the new debt structure has been in place for a year. Pro forma Class A free cash flow to debt service was 3.3 times as at 31 January 2014 and pro forma Class B free cash flow to debt service was 2.2 times, with substantial headroom compared to the covenants within the financing arrangements.

Material risks and uncertainties

The Group follows a structured, proactive risk identification and assessment process that involves all of its Directors and which is updated on an on-going basis. Extensive use of operational and financial information is made to monitor the performance of the business and the external environment allowing the management team to take action when appropriate. In addition, the AA has dedicated internal audit, risk management, quality monitoring, health and safety and regulatory compliance resources supporting the management team.

The AA brand enjoys a high degree of familiarity and awareness in the UK and the key risks that the Group manages are those that could negatively impact on the perception of the AA brand in the eyes of its customers or the public. The operational processes within the Roadside Assistance business, and the in-house IT and communication systems that support the effective delivery of a high quality of service to customers are key to this. The AA seeks to manage these risks through investment in operational capability and training to ensure the best possible service at the roadside for its customers and via a policy of active engagement with the media through its public relations activities. The operational resilience of systems and processes are tested on an on-going basis and supported by business continuity plans.

The Group may face increased competition and price pressure in the markets in which we operate which may result in downward pressure on our pricing. To the extent that we do not match or remain within a competitive margin of our competitors' pricing, or seek to implement price increases, we may lose market share. As part of our efforts to attract new customers and achieve a high degree of cross-penetration between our business segments, we offer discounts to certain customers in respect of our products. We regularly offer lower introductory prices to attract new personal members and subsequently receive requests from existing personal members to retain these introductory discounts. A significant change in the number of existing personal members requesting the maintenance of these initial discounts or a significant number of personal members declining to renew their memberships upon the expiration of their introductory offer rates would reduce revenue and potentially impact the AA's market share.

As vehicles get older, the likelihood of breaking down generally increases. Therefore, a decrease in the average age of vehicles in the UK, together with an improvement in the technological and qualitative aspects of some motor vehicle components would reduce the likelihood of motor vehicles breaking down, which may lead to a decrease in demand for our roadside assistance services by customers. In addition, external factors, such as extremes in temperature, can significantly increase the workload, costs and threaten customer service levels in the short term.

Strategic report *(continued)*

Material risks and uncertainties (continued)

The AA has a number of important business services partner accounts, mainly in our roadside assistance segment. The loss of one of these accounts to a competitor or the renewal of those contracts on less advantageous terms could impact the financial results. Our continuing investment in operational capability and training described above is a key factor in retaining this business.

The Group operates as an intermediary in the personal lines insurance market which is subject to significant competition from direct writers of insurance coverage, as well as non-insurance financial services companies, such as banks, which may offer alternative products or more competitive pricing for segments of the insurance market in which the AA operates. A failure to meet these competitive challenges could result in a loss of market share.

The AA is affected by regulation of the industries in which it operates through prudential and consumer protection measures imposed by a number of insurance and financial services regulators, including the PRA as the primary regulatory authority of the insurance sector and the FCA of the insurance intermediation sector. The AA may be subject to regulatory and governmental inquiries and investigations or changes to regulations that require the AA to adapt its business processes or products. The AA maintains regulatory compliance teams who are responsible for the constant monitoring of these requirements to ensure continued compliance.

The Group is highly leveraged and has significant debt service obligations. This may make it more difficult to satisfy the AA’s obligations with respect to this indebtedness in the future, restrict strategic acquisitions, or place the Group at a competitive disadvantage compared with competitors that have less debt. However the Group has been strongly cash generative during the year end 31 January 2014 and at year end had cash and cash equivalents of £144.7 million of which £127.6 million was available for use within the business. The Directors therefore feel that the Group has sufficient flexibility to meet its current business requirements from existing resources.

Management discussion and analysis

A detailed review of the consolidated income statement (see page 19), segmental analysis (see note 2) and consolidated statement of cash flows (see page 23) is discussed below.

Management discussion and analysis – Consolidated income statement for the year ended 31 January 2014

Revenue: Revenue increased by £5.6 million or 0.6% from £968.0 million in the year ended 31 January 2013 to £973.6 million in the year ended 31 January 2014. The increase in revenue was primarily driven by growth in the roadside assistance segment as outlined below.

> *Roadside Assistance*: Roadside Assistance revenue increased by £18.3 million or 2.7% from £679.3 million in the year ended 31 January 2013 to £697.6 million in the year ended 31 January 2014. The increase in revenue was primarily driven by stable retention rates and increased average income per Personal Member. Income also increased as a result of increased levels of pay-for-use activity from our business services customers.
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> *Insurance Services*: Insurance Services revenue decreased by £13.2 million or 8.1% from £162.1 million in the year ended 31 January 2013 to £148.9 million in the year ended 31 January 2014. The decrease in revenue was primarily driven by lower policy volumes and ancillary revenue from motor insurance customers.
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> *Driving Services*: Driving Services revenue decreased by £3.8 million or 4.2% from £91.3 million in the year ended 31 January 2013 to £87.5 million in the year ended 31 January 2014. The decrease in revenue was primarily driven by the reduction in sales relating to the stock of discontinued titles from the publishing business, combined with a reduction in Driving Instructor Training sales across the AA's two driving schools.

Strategic report *(continued)*

Management discussion and analysis (continued)

Ireland: Ireland revenue increased by £1.3 million or 3.4% from £38.3 million in the year ended 31 January 2013 to £39.6 million in the year ended 31 January 2014. The increase in revenue was primarily driven by a strengthening of the euro against sterling.

Cost of sales: Cost of sales decreased by £6.2 million or 1.8% from £349.4 million in the year ended 31 January 2013 to £343.2 million in the year ended 31 January 2014. The decrease in cost of sales was primarily driven by cost saving initiatives, operational efficiencies and reduced fleet costs in the driving services segment.

Administrative and marketing expenses: Administrative and marketing expenses decreased by £41.4 million or 13.6% from £300.1 million in the year ended 31 January 2013 to £258.7 million in the year ended 31 January 2014. The decrease in administrative and marketing expenses was primarily driven by lower exceptional costs as the restructuring of group operations in the year ended 31 January 2013 did not recur. Excluding the change in exceptional items of £15.7 million, administrative and marketing costs fell by £25.7 million or 9.4%, which includes the full year effect of the cost saving initiatives implemented in the final quarter of the last financial year.

Other operating income: Other operating income decreased by £1.3 million or 92.9% from £1.4 million in the year ended 31 January 2013 to £0.1 million in the year ended 31 January 2014. The decrease in other operating income was primarily driven by reduced underwriting activities.

Operating profit: Operating profit increased by £51.6 million or 16.1% from £320.6 million in the year ended 31 January 2013 to £372.2 million in the year ended 31 January 2014. The increase in operating profit was primarily driven by the increase in business profitability described below together with the decrease in exceptional items described above.

Finance costs: Finance costs increased by £143.6 million from £11.3 million in the year ended 31 January 2013 to £154.9 million in the year ended 31 January 2014. The increase in finance costs was driven by the refinancing that occurred in July 2013. Prior to this, group debt was incurred at the Acromas level and no external interest was borne by the AA Group.

Finance income: Finance income remained stable at £0.3 million in the years ended 31 January 2013 and 31 January 2014.

Taxation: Taxation decreased by £31.6 million or 41.1% from a charge of £76.8 million in the year ended 31 January 2013 to a charge of £45.2 million in the year ended 31 January 2014. The decrease in tax expense was driven by a reduction in current tax due to the higher interest payable on borrowings. The impact of the asset-backed funding scheme for the AA UK pension scheme, which reduced the tax payable for the year, was offset by the corresponding release of the AA UK pension deferred tax asset. The current tax effect of the asset-backed funding scheme for the AA UK pension scheme is expected to reduce the tax obligation by £39.6 million in relation to the year ended 31 January 2014 and a further £12.9 million in relation to the year ended 31 January 2015.

Trading EBITDA

Trading EBITDA is a non-IFRS measure and is not a substitute for any International Accounting Standards measure.

Trading EBITDA increased by £28.3 million or 7.2% from £394.6 million in the year ended 31 January 2013 to £422.9 million in the year ended 31 January 2014. The increase in Trading EBITDA was primarily driven by growth in the roadside assistance segment as outlined below.

Strategic report *(continued)*

Management discussion and analysis (continued)

Roadside Assistance: Roadside Assistance Trading EBITDA increased by £25.1 million or 7.9% from £318.8 million in the year ended 31 January 2013 to £343.9 million in the year ended 31 January 2014. Trading EBITDA margins increased from 46.9% in the year ended 31 January 2013 to 49.3% in the year ended 31 January 2014. The increase in Trading EBITDA was driven by stable retention rates and increased average income per Personal Member as well as increased levels of pay-for-use activity from business services customers. Cost saving initiatives implemented in the last financial year and the mild winter giving fewer workload peaks also increased Trading EBITDA margin.

Insurance Services: Insurance Services Trading EBITDA decreased by £3.7 million or 4.0% from £93.1 million in the year ended 31 January 2013 to £89.4 million in the year ended 31 January 2014. Trading EBITDA margins increased from 57.4% in the year ended 31 January 2013 to 60.0% in the year ended 31 January 2014. The decrease in Trading EBITDA was driven principally by lower income from a smaller book of motor insurance customers. This reduction in revenue has been partly mitigated in terms of Trading EBITDA and Trading EBITDA margin performance by the cost reduction initiatives implemented in the fourth quarter of the year ended 31 January 2013 with respect to call centre activities.

Driving Services: Driving Services Trading EBITDA increased by £1.5 million or 8.2% from £18.4 million in the year ended 31 January 2013 to £19.9 million in the year ended 31 January 2014. Trading EBITDA margins increased from 20.2% in the year ended 31 January 2013 to 22.7% in the year ended 31 January 2014. The increase in the Trading EBITDA margin was driven by reduced fleet costs in the Driving Schools combined with the impact of the restructuring exercise undertaken in the fourth quarter of the last financial year.

Ireland: Ireland Trading EBITDA increased by £2.0 million or 15.4% from £13.0 million in the year ended 31 January 2013 to £15.0 million in the year ended 31 January 2014. Trading EBITDA margins increased from 33.9% in the year ended 31 January 2013 to 37.9% in the year ended 31 January 2014. The increase in both Trading EBITDA and Trading EBITDA margin was driven by cost saving initiatives implemented in the business. The strengthening of the euro compared to the comparative reporting period has also improved Ireland results reported in sterling.

Head Office Costs: Head Office Costs decreased by £4.0 million or 8.1% from £49.3 million in the year ended 31 January 2013 to £45.3 million in the year ended 31 January 2014. The decrease in head office costs is primarily due to cost saving initiatives implemented in the current financial year.

Management discussion and analysis – Consolidated income statement for the year ended 31 January 2013

Revenue: Revenue 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 revenue was primarily driven by our decision to cease writing reinsurance business within our underwriting segment. Excluding the insurance segment, revenue 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. Unallocated revenue relates to the management fees paid to Acromas that were previously set against revenue, which have now been discontinued as described above.

Roadside Assistance: Roadside Assistance revenue from roadside assistance increased by £30.8 million or 4.7% from £648.5 million in the year ended 31 January 2012 to £679.3 million in the year ended 31 January 2013. The increase in revenue was primarily driven by increased Personal Member retention rates and income per Personal Member, as well as increased usage by business services customers, who pay for their service based on the number of callouts.

Strategic report *(continued)*

Management discussion and analysis (continued)

Insurance Services: Insurance Services revenue 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 revenue in the year ended 31 January 2013 was primarily due to a reduction in Motor insurance policy sales as the underwriting panel focused on insurance customers with strong credit histories. The decline in revenue from Motor insurance was also partially offset by the growth in revenue from Home insurance and Home Services products. Revenue from these products grew as a result of increased efforts to promote cross-holding among our database of roadside assistance Personal Members and, in the case of Home Services, continued marketing efforts to promote new service offerings.

Driving Services: Driving Services revenue decreased by £2.4 million or 2.6% from £93.7 million in the year ended 31 January 2012 to £91.3 million in the year ended 31 January 2013. The decrease in revenue was primarily due to our decision to remove less profitable titles from our Media business. There was also a small decline in the number of driving instructor franchisees as a result of lower provisional driving licence applications during the year.

Ireland: Ireland revenue 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. The decrease in revenue was primarily driven by the weakening of the euro exchange rate against sterling.

Insurance Underwriting: Insurance Underwriting revenue decreased by £25.8 million or 100% from £25.8 in the year ended 31 January 2012 to £nil million in the year ended 31 January 2013. The decrease in revenue was due to no business being written during the year ended 31 January 2013.

Cost of sales: 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 within our 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 the Media business within the driving services segment. Exceptional costs within cost of sales were £7.4 million in the year ended 31 January 2012, which related to the onerous lease contract costs within the Group's driving services operations. There were no exceptional costs within cost of sales in the year ended 31 January 2013.

Administrative and marketing expenses: Administrative and marketing expenses increased by £17.1 million or 6.0% from £283.0 million in the year ended 31 January 2012 to £300.1 million in the year ended 31 January 2013. The increase in administrative and marketing expenses was driven by exceptional costs. Excluding the increase in exceptional items included within this category of £20.7 million, administrative and marketing costs fell by £3.6 million or 1.3% largely as a result of cost savings delivered in the fourth quarter of the year ended 31 January 2013 from the group restructuring project which incurred the exceptional costs described above.

Other operating income: Other operating income decreased by £1.0 million or 41.6% 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.

Operating profit: Operating profit increased by £12.1 million or 3.9% from £308.5 million in the year ended 31 January 2012 to £320.6 million in the year ended 31 January 2013. The increase in operating profit was primarily driven by the increase in business profitability described below, partially offset by the increase in exceptional items. Excluding exceptional items, operating profit increased by £25.4 million or 7.8% from £325.2 million in the year ended 31 January 2012 to £350.6 million in the year ended 31 January 2013.

Strategic report *(continued)*

Management discussion and analysis (continued)

Finance costs: Finance costs decreased by £1.0 million from £12.3 million in the year ended 31 January 2012 to £11.3 million in the year ended 31 January 2013. The decrease in finance costs was due to a reduction in the net finance expense on defined benefit pension schemes and a reduction in the unwinding of the discount rate on provisions.

Finance income: Finance income remained stable at £0.3 million in the years ended 31 January 2012 and 31 January 2013.

Taxation: Taxation increased by £1.5 million or 2.0% from a charge of £75.3 million in the year ended 31 January 2012 to a charge of £76.8 million in the year ended 31 January 2013. The increase in taxation was driven by increased taxable profits, partially offset by the reduction in the headline tax rate.

Trading EBITDA

Trading EBITDA is a non-IFRS measure and is not a substitute for any International Accounting Standards measure.

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. The increase in Trading EBITDA was primarily driven by growth in the roadside assistance segment as outlined below.

Roadside Assistance: Roadside Assistance Trading EBITDA increased by £19.5 million or 6.1% from £299.3 million in the year ended 31 January 2012 to £318.8 million in the year ended 31 January 2013. Trading EBITDA margins increased from 46.2% in the year ended 31 January 2012 to 46.9% in the year ended 31 January 2013. The increase in Trading EBITDA was driven by increased Personal Member retention rates, average income from Personal Members and increased usage of the roadside service by our business services customers. Trading EBITDA was also influenced by increased operational efficiency with respect to patrols. Investments in marketing and member retention activities which were carried out during the year ended 31 January 2012 and reduced Trading EBITDA and Trading EBITDA margin during that year, were not repeated in the year ended 31 January 2013.

Insurance Services: Insurance Services Trading EBITDA 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. Trading EBITDA margins 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 principally by Home Services becoming profitable after investment in marketing and operational resources during 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 were partially offset by lower levels of Trading EBITDA in Motor insurance.

Driving Services: Driving Services Trading EBITDA increased by £3.7 million or 25.2% from £14.7 million in the year ended 31 January 2012 to £18.4 million in the year ended 31 January 2013. Trading EBITDA margins increased from 15.7% in the year ended 31 January 2012 to 20.2% in the year ended 31 January 2013. The increase in both the Trading EBITDA and Trading EBITDA margin was primarily due to continued growth in the driver training business in connection with increased demand for services offered by AA Drivetech, as well as the restructuring of 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.

Ireland: Ireland Trading EBITDA 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. Trading EBITDA margins increased from 33.6% in the year ended 31 January 2012 to 33.9% in the year ended 31 January 2013. The decrease in Trading EBITDA was driven by the weakening of the euro exchange rate against sterling over the period. Excluding the impact of currency translation the trading results for the years ended 31 January 2012 and 31 January 2013 would have been broadly flat.

Strategic report *(continued)*

Management discussion and analysis (continued)

Head Office Costs: Head Office Costs remained largely unchanged, decreasing by £0.1 million or 0.2% from £49.4 million in the year ended 31 January 2012 to £49.3 million in the year ended 31 January 2013.

Management discussion and analysis – Consolidated statement of cash flows

Net cash flow from operating activities before tax: £396.9 million in the year ended 31 January 2014 (compared to £352.7 million in the year ended 31 January 2013 and £331.3 million in the year ended 31 January 2012). The increase in cash flows from operating activities before tax throughout the period was driven by the improved profitability of the business, with working capital movements being relatively small and consistent across all three years.

Tax paid: Cash outflow from tax paid was £56.1 million in the year ended 31 January 2013 and £60.8 million in the year ended 31 January 2012 compared to £8.2 million in the year ended 31 January 2014. The reduction in cash outflow from tax paid is due to the reduction in the tax charge for the year ended 31 January 2014 due to the utilisation of tax losses arising from the establishment of the asset-backed funding scheme for the AA UK pension scheme.

Investing activities: Cash outflow from investing activities was £27.5 million in the year ended 31 January 2014 compared to £10.9 million in the year ended 31 January 2013 which primarily related to software development, partially offset by the liquidation of certain fixed term investments within the insurance underwriting segment as the business runs down. Net cash outflow from investing activities was £28.3 million in the year ended 31 January 2012 which primarily related to software development activities and the upgrade of the IT infrastructure supporting the business.

Financing transaction: Cash outflow from financing transactions was £nil in the year ended 31 January 2013 and the year ended 31 January 2012 compared to £2.8 million in the year ended 31 January 2014. The increase in cash outflows on financing transactions relates to the borrowings initially entered into on 2 July 2013.

Interest paid on borrowings: Cash outflow from the interest paid on borrowings was £nil in the year ended 31 January 2013 and the year ended 31 January 2012 compared to £102.9 million in the year ended 31 January 2014. The increase in interest paid on borrowings is due to the debt interest payable relating to the borrowings initially entered into on 2 July 2013.

Payment of finance lease capital and interest: Cash outflow from the payment of finance lease capital and interest was £16.7 million in the year ended 31 January 2013 and £22.6 million in the year ended 31 January 2012 compared to £21.9 million in the year ended 31 January 2014. The change in cash outflow from payment of finance lease capital and interest was primarily driven by timing differences on leasing payments for the year ended 31 January 2013.

Payments to group treasury: Cash outflow from payments to group treasury was £270.9 million in the year ended 31 January 2013 and £248.9 million in the year ended 31 January 2012 compared to £122.3 million in the year ended 31 January 2014. The decrease in cash outflow from payments to group treasury is due to the cessation of payments to Acromas group treasury following the financing transaction in July 2013.

By order of the Board

A K Boland

Chief Financial Officer

27 May 2014

Directors' report

The Directors present their report and audited consolidated financial statements of AA Intermediate Co Limited ("the Company") and its subsidiary undertakings for the year ended 31 January 2014.

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

C T P Jansen	Chief Executive Officer	Appointed 6 January 2014
A K Boland	Chief Financial Officer	Appointed 1 April 2013
J A Goodsell		Resigned 1 October 2013
S M Howard		Resigned 1 October 2013
A J P Strong		Resigned 6 January 2014

Corporate and Social Responsibility

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

Drive Confident is aimed at lapsed or rusty drivers. Over the last three years the Trust has provided more than 12,000 free courses for vulnerable drivers and won the FIA International Innovation Award for this work. The Trust has also run an initiative to help disadvantaged teenagers in residential care to learn to drive. The Trust was awarded a prestigious Prince Michael of Kent International Road Safety Award in recognition of its practical work in road safety.

During the year ended 31 January 2014, staff across the AA raised over £87,000 for a variety of local charities. Nationally, the AA supports two charities - BEN (the Automotive Industry Charity) and the AA Charitable Trust. In the year ended 31 January 2014, support for these charities was £124,000.

The AA diverted 83% of waste from landfill during the year; this was 5.9% above the target and an improvement on the previous year. The AA Road Operations are certified to ISO14001 (environmental accreditation). AA Fuel Assist recycles contaminated fuels. AA patrol vehicles are automatically monitored for use of fuel and excessive idling. AA patrols are trained in eco driving techniques. AA patrols operate electric vans and scooters in London. AA staff can recharge their electric vehicles using charging points at the Basingstoke and Oldbury offices.

The AA also promotes and provides Bikeability (cycle proficiency) courses and campaigns for greater harmony between drivers and cyclists. As part of the AA Think Bikes Campaign more than two million cycle/motorcycle stickers have been distributed free of charge to drivers to remind them to look out for those on two wheels. A promotional video to accompany the campaign has already been viewed by 200,000 people including a viewing at the United Nations.

Employees

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

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

Directors' report *(continued)*

Disclosure of information to the auditors

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

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

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report and the Directors' Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and Group and the profit or loss of the Company and Group for that period.

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance, position and risk management objectives are described in the strategic report.

The Group has long-term contracts with a number of suppliers across different industries and its activities are highly cash generative. The Group's borrowings are long-term in nature and the Group had £144.7 million of cash and cash equivalents of which £127.6 million is freely available to use within the business. The Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

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

Directors' report *(continued)*

Post balance sheet events

Subsequent to the year end the Group has refinanced its Senior Term Facility and renewed its roadside assistance contract with Lloyds Banking group. Further details can be found in the Strategic Report.

By order of the Board

A K Boland

Chief Financial Officer

27 May 2014

Fanum House
Basing View
Basingstoke
Hampshire
RG21 4EA

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

We have audited the group financial statements of AA Intermediate Co Limited for the year ended 31 January 2014 which comprise the Consolidated income statement, the Consolidated statement of other comprehensive income, the Consolidated statement of financial position, the Consolidated statement of changes in equity, the Consolidated statement of cash flows and the related notes 1 to 37. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 16, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 January 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the parent company financial statements of AA Intermediate Co Limited for the year ended 31 January 2014.

Kevin Senior (Senior statutory auditor)
for and on behalf of Ernst &Young LLP, Statutory Auditor
London
27 May 2014

Consolidated income statement

in millions of pounds	Note	**2014**	2013	2012
		for the year ended 31 January		
Revenue	2	**973.6**	968.0	973.9
Cost of sales		**(343.2)**	(349.4)	(385.2)
Gross profit		**630.4**	618.6	588.7
Other operating income	3	**0.1**	1.4	2.4
Administrative & marketing expenses		**(258.7)**	(300.1)	(283.0)
Operating profit before share of profits of associates		**371.8**	319.9	308.1
Share of profits of associates, net of tax		**0.4**	0.7	0.4
Operating profit		**372.2**	320.6	308.5
Trading EBITDA	2	**422.9**	394.6	368.1
Items not allocated to a segment	2	**5.2**	(4.3)	(5.0)
Amortisation of intangible assets	10	**(12.1)**	(9.8)	(7.3)
Depreciation	12	**(27.5)**	(28.1)	(29.4)
Acquisition earn-out costs		**(2.0)**	(1.8)	(1.2)
Exceptional items	4	**(14.3)**	(30.0)	(16.7)
Operating profit	4	**372.2**	320.6	308.5
Profit on disposal of joint venture		**0.4**	3.1	0.6
Loss on disposal of subsidiary		**(3.4)**	-	-
Finance costs	5 (a)	**(154.9)**	(11.3)	(12.3)
Finance income	5 (b)	**0.3**	0.3	0.3
Profit before tax		**214.6**	312.7	297.1
Tax expense	8	**(45.2)**	(76.8)	(75.3)
Profit for the year		**169.4**	235.9	221.8

The notes on pages 24 to 73 form part of these consolidated financial statements.

Consolidated statement of other comprehensive income

in millions of pounds	Note	**2014**	2013	2012
		for the year ended 31 January		
Profit for the year		**169.4**	235.9	221.8
Other comprehensive income on items that are or maybe reclassified to profit and loss in subsequent years				
Exchange differences on translation of foreign operations		**(0.1)**	(0.9)	(0.1)
Effective portion of changes in fair value of cash flow hedges	27	**(7.8)**	-	-
Tax effect	8	**1.6**	-	-
Capital contribution	24	**1.6**	-	-
		(4.7)	(0.9)	(0.1)
Other comprehensive income on items that are not to be reclassified to profit and loss in subsequent years				
Remeasurement losses on defined benefit schemes	25	**(122.7)**	(21.2)	(24.7)
Tax effect	8	**24.5**	4.5	6.0
		(98.2)	(16.7)	(18.7)
Total other comprehensive income	24	**(102.9)**	(17.6)	(18.8)
Total comprehensive income for the year		**66.5**	218.3	203.0

The notes on pages 24 to 73 form part of these consolidated financial statements.

Consolidated statement of financial position

in millions of pounds	Note	as at 31 January **2014**	2013	2012
Non-current assets				
Goodwill and other intangible assets	10	**1,245.0**	1,237.3	1,230.9
Property, plant and equipment	12	**77.3**	86.5	98.2
Investments in associates	13	**3.5**	3.4	2.9
Deferred tax assets	8	**36.4**	48.0	47.0
Other receivables	15	**1.4**	9.6	24.7
		1,363.6	1,384.8	1,403.7
Current assets				
Inventories	14	**4.9**	5.3	5.3
Trade and other receivables	15	**160.1**	315.9	314.8
Amounts owed by fellow subsidiary undertakings	16	**-**	1,250.8	979.9
Amounts owed by parent undertaking	16	**1,204.8**	-	-
Cash and cash equivalents	17	**144.7**	31.9	29.1
		1,514.5	1,603.9	1,329.1
Total assets		**2,878.1**	2,988.7	2,732.8
Current liabilities				
Trade and other payables	18	**(453.1)**	(578.2)	(534.3)
Amounts owed to parent undertaking	16	**(1.9)**	(1,895.6)	(1,886.4)
Current tax payable		**-**	(7.0)	(20.9)
Provisions	21	**(11.9)**	(23.1)	(10.6)
		(466.9)	(2,503.9)	(2,452.2)
Non-current liabilities				
Borrowings and loans	19	**(3,006.9)**	-	-
Finance lease obligations	29	**(7.9)**	(13.6)	(17.1)
Defined benefit pension scheme liabilities	25	**(265.5)**	(165.7)	(138.2)
Provisions	21	**(15.7)**	(26.7)	(28.2)
Insurance technical provisions	22	**(0.2)**	(3.2)	(39.8)
		(3,296.2)	(209.2))	(223.3)
Total liabilities		**(3,763.1)**	(2,713.1)	(2,675.5)
Net (liabilities)/assets		**(885.0)**	275.6	57.3
Equity				
Share capital	23	**20.0**	20.0	20.0
Foreign currency translation reserve	24	**(1.1)**	(1.0)	(0.1)
Cashflow hedge reserve	24	**(6.2)**	-	-
Retained earnings	24	**(897.7)**	256.6	37.4
Total equity attributable to equity holders of the parent		**(885.0)**	275.6	57.3

Signed for and on behalf of the Board by

A K Boland

Chief Financial Officer

27 May 2014

The notes on pages 24 to 73 form part of these consolidated financial statements.

Consolidated statement of changes in equity

	Attributable to the equity shareholders of the parent				
in millions of pounds	Issued capital	Currency translation reserve	Cashflow hedging reserve	Retained earnings	**Total**
At 1 February 2011	**20.0**	**-**	**-**	**(165.7)**	**(145.7)**
Profit for the year	-	-	-	221.8	221.8
Other comprehensive income	-	(0.1)	-	(18.7)	(18.8)
Total comprehensive income	-	(0.1)	-	203.1	203.0
At 31 January 2012	**20.0**	**(0.1)**	-	**37.4**	**57.3**
Profit for the year	-	-	-	235.9	235.9
Other comprehensive income	-	(0.9)	-	(16.7)	(17.6)
Total comprehensive income	-	(0.9)	-	219.2	218.3
At 31 January 2013	**20.0**	**(1.0)**	-	**256.6**	**275.6**
Profit for the year	-	-	-	169.4	169.4
Other comprehensive income	-	(0.1)	(6.2)	(96.6)	(102.9)
Total comprehensive income	-	(0.1)	(6.2)	72.8	66.5
Dividends	-	-	-	(1,227.1)	(1,227.1)
At 31 January 2014	**20.0**	**(1.1)**	**(6.2)**	**(897.7)**	**(885.0)**

The notes on pages 24 to 73 form part of these consolidated financial statements.

Consolidated statement of cash flows

		for the year ended 31 January		
in millions of pounds	Note	**2014**	2013	2012
Net cash flows from operating activities before tax	9	**396.9**	352.7	331.3
Tax paid	9	**(8.2)**	(56.1)	(60.8)
Net cash flows from operating activities	9	**388.7**	296.6	270.5
Investing activities				
Software development expenditure	10	**(19.9)**	(15.3)	(13.1)
Purchase of property, plant and equipment		**(9.7)**	(6.6)	(13.5)
Acquisition of subsidiaries, net of cash acquired		**-**	(8.1)	(3.3)
Proceeds from disposal of joint venture		**0.4**	3.1	0.3
Sale of subsidiary, net of cash disposed		**(1.6)**		
Proceeds from fixed term investments - restricted		**2.6**	15.1	-
Interest received		**0.7**	0.9	1.3
Net cash flows used in investing activities		**(27.5)**	(10.9)	(28.3)
Financing activities				
Proceeds from borrowings		**3,916.4**	-	-
Issue costs on borrowings		**(94.8)**	-	-
Repayment of borrowings	20	**(862.0)**	-	-
Repayment of amounts owed to parent undertakings		**(2,962.4)**	-	-
Refinancing transaction		**(2.8)**	-	-
Interest paid on borrowings		**(102.9)**	-	-
Payment of finance lease capital and interest		**(21.9)**	(16.7)	(22.6)
Payments to group treasury		**(122.3)**	(270.9)	(248.9)
Net cash flows from financing activities		**(249.9)**	(287.6)	(271.5)
Net increase in cash and cash equivalents		**111.3**	(1.9)	(29.3)
Net foreign exchange differences		**(0.6)**	0.5	(0.4)
Cash and cash equivalents at the beginning of the year	17	**34.0**	35.4	65.1
Cash and cash equivalents at 31 January	17	**144.7**	34.0	35.4

The notes on pages 24 to 73 form part of these consolidated financial statements.

Notes to the consolidated financial statements

1 Basis of preparation

1.1 General information

The consolidated financial statements for the three years ended 31 January 2014 comprise the financial statements of AA Intermediate Co Limited (‘the Company’) and its subsidiaries (together referred to as ‘the Group’). AA Intermediate Co Limited is a limited company incorporated and domiciled in the United Kingdom. The registered office is located at Fanum House, Basing View, Basingstoke, Hampshire, RG21 4EA.

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

1.2 Accounting policies

The Group has prepared these statements under International Financial Reporting Standards (IFRS) as adopted by the European Union, International Financial Reporting Interpretation Council (IFRIC) interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Group previously adopted IFRS in its consolidated financial statements at 31 December 2006. However, following the Group’s acquisition by Acromas Bid Co Limited during 2007, the Company prepared financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (“UK GAAP”) for the periods ending 31 January 2008 to 31 January 2013. As such, the Company has applied IFRS 1 “First time adoption” in the preparation of these financial statements.

The AA Group’s deemed transition date to IFRS is 1 February 2011. The principles and requirements for first time adoption of IFRS are set out in IFRS 1. IFRS 1 allows for certain exemptions in the application of particular standards to prior periods in order to assist companies with the transition process. The exemptions applied by the AA Group on transition to IFRS are set out in note 37 to the consolidated financial statements.

These consolidated financial statements have been prepared under the historic cost convention as modified by the measurement of derivatives and liabilities for contingent consideration in business combinations at fair value.

The principal accounting policies are set out below.

a) Going concern

The Group has long-term contracts with a number of suppliers across different industries and is strongly cash generative. The Group’s borrowings are long-term in nature and in addition to the cash balances at the reporting date the Group has agreed undrawn credit facilities. The Directors have reviewed projected cash flows for a period of one year from the date of signing these financial statements and have concluded that the Group has sufficient funds to continue trading for this period and the foreseeable future. Therefore, the financial statements have been prepared using the going concern basis.

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

b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Notes to the consolidated financial statements (continued)

1.2 Accounting policies *(continued)*

c) Interests in associates and joint operations

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participating in the financial and operating policy decisions of the investee.

The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting except when classified as held for sale (see below). Investments in associates are carried in the Group balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets less any impairment in the value of individual investments.

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

d) Foreign currencies

Transactions in currencies other than the functional currency of each consolidated undertaking are recorded at rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the respective functional currency at rates of exchange ruling at the balance sheet date. Gains and losses arising on the translation of assets and liabilities are taken to the income statement.

The results of overseas operations are translated into sterling at average rates of exchange for the period. Exchange differences arising on the retranslation of the opening net assets of overseas operations are transferred to the Group's cumulative translation reserve in equity.

The Group has taken advantage of the relief available in IFRS 1 to deem the cumulative translation differences for all foreign operations to be zero at the date of transition to adopted IFRS (1 February 2011).

e) Business combinations and goodwill

All business combinations are accounted for by applying the acquisition method.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identified assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset at cost less accumulated impairments and reviewed for impairment annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Any contingent consideration payable is recognised at fair value at the acquisition date, and subsequent changes to the fair value of the contingent consideration are recognised in profit or loss. Any consideration paid to a former owner as part of the acquisition that is contingent on future service is excluded from goodwill and separately included within administrative & marketing expenses.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP carrying value subject to being tested for impairment at that date in accordance with the exemption in IFRS 1 (see note 37).

Notes to the consolidated financial statements (continued)

1.2 Accounting policies *(continued)*

f) Software and development costs

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

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

Following initial recognition of the development expenditure as an asset, the cost model is applied. The asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over its useful life of 3 to 5 years.

g) Intangible assets

Intangible assets other than goodwill which are acquired separately are stated at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

h) Property, plant and equipment

Land and buildings held for use in the production of goods and services or for administrative purposes are stated in the balance sheet at cost or fair value for assets acquired in a business combination less any subsequent accumulated depreciation and impairment losses. No capitalised interest is included in the cost of items of property, plant and equipment.

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Such costs include costs directly attributable to making the asset capable of operating as intended. The cost of property, plant and equipment less their expected residual value is depreciated by equal instalments over their useful economic lives. These lives are as follows:

Buildings	50 years
Related fittings	3 - 20 years
Leasehold properties	over the period of the lease
IT Systems (hardware)	3 - 5 years
Plant, vehicles and other equipment	3 - 10 years

Assets held under finance leases are depreciated on a straight line basis over the lease term.

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

i) Inventories

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

j) Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. They are classified according to the substance of the contractual arrangements entered into.

Notes to the consolidated financial statements (continued)

1.2 Accounting policies *(continued)*

Trade receivables

Trade receivables are not interest bearing and are recognised initially at fair value. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank deposits with an original maturity greater than three months are excluded from cash and cash equivalents for the purpose of the cash flow statement. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

Trade payables

Trade payables are not interest bearing and are recognised initially at fair value.

Debt instruments

Debt is initially recognised in the balance sheet at fair value less transaction costs incurred directly in connection with the issue of the instrument. Finance costs in respect of the instruments, including discounts on issue, are capitalised at inception and charged to the income statement over the term of the instrument using the effective interest method.

Equity instruments (share capital issued by the Group)

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all its liabilities. Equity instruments are recognised at proceeds received less direct issue costs.

Derivative financial instruments

The Group's activities expose it to the financial risk of changes in interest rates. The Group uses interest rate swap contracts to hedge these exposures.

Derivative financial instruments are recorded in the balance sheet at fair value. The fair value of derivative financial instruments is determined by reference to market values for similar financial instruments. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Cashflow hedges

Changes in the fair value of derivative financial instruments that are designated and highly effective as hedges of future cashflows are recognised in other comprehensive income. Any ineffective portion of the hedge is recognised immediately in the profit or loss. Amounts recognised in other comprehensive income are reclassified from equity to profit and loss (within finance costs) in the period when the hedged item affects profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in the other comprehensive income at that time remains in equity and is reclassified when the forecast transaction is ultimately recognised in the income statement.

In order to qualify for hedge accounting, the Group is required to document from inception the relationship between the item being hedged and the hedging instrument. The Group is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an on-going basis. This effectiveness testing is performed at each period end to ensure that the hedge remains highly effective.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Notes to the consolidated financial statements (continued)

1.2 Accounting policies *(continued)*

k) Impairment of non-current assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. In addition goodwill and intangible assets not yet available for use are tested for impairment annually.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash generating units or "CGUs"). The goodwill acquired in a business combination is allocated to CGUs so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

l) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included on the balance sheet as a financial liability. Lease payments are apportioned between finance charges and the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement.

Rentals payable and receivable under operating leases are charged, or credited, to the income statement on a straight-line basis over the term of the relevant lease term. Benefits received and receivable as an incentive to enter into an operating lease are spread on a straight line basis over the lease term.

m) Provisions

A provision is required when the Group has a present legal or constructive obligation as a result of a past event and it is probable that settlement will be required of an amount that can be reliably estimated.

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties. Provisions are discounted where the impact is material.

In relation to unoccupied properties, where a decision has been made prior to the year end to permanently vacate the property, provision is made for future rent and similar costs net of any rental income expected to be received up to the estimated date of final disposal. Provision is made on a discounted basis.

Notes to the consolidated financial statements (continued)

1.2 Accounting policies *(continued)*

n) Retirement benefit obligation

The Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Group determines the net interest on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability.

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Group recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in administrative and marketing expenses in profit or loss.

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

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

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

o) Revenue recognition

Revenue is measured at the fair value of the consideration receivable provided net of discounts, value added tax and other sales related taxes.

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

Commission income from insurers external to the Group is recognised at the commencement of the period of risk.

Interest revenue in respect of trade receivables is accrued on a time basis, by reference to the principal outstanding and at the effective rate of interest applicable, which is the rate that discounts future estimated cash receipts through the expected life of the financial asset to the asset's net carrying amount. All other interest income is presented under the heading 'Finance income'.

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

Notes to the consolidated financial statements (continued)

1.2 Accounting policies *(continued)*

p) Insurance contracts

An insurance contract is a contract under which insurance risk is transferred to the issuer of the contract by another party. The Group accepts insurance risk from its customers under roadside recovery service contracts by agreeing to provide services whose frequency and cost is uncertain.

Such contracts continue to be measured and accounted for under existing accounting practices at the date of transition to IFRS.

The accounting policy for recognising revenue from these contracts is described in the 'revenue recognition' accounting policy. Claims and expenses arising from these contracts are recognised in profit or loss as incurred.

At the balance sheet date, a liability adequacy test is performed to ensure the adequacy of the insurance contract liabilities. In performing these tests, current estimates of future cash outflows arising under insurance contracts are considered and compared with the carrying amount of deferred income and other insurance contract liabilities. Any deficiency is immediately recognised in profit or loss and an onerous contract provision is established.

The estimation of the ultimate liability from claims made under insurance contracts is not considered to be one of the Group's most critical accounting estimates. This is because the principal insurance claims costs for the Group relate to the provision of roadside assistance services. There is a very short period of time between the receipt of a claim, i.e. a breakdown, and the settling of that claim. Consequently there are no significant provisions for unsettled claims costs in respect of the roadside assistance services.

q) Exceptional items

Exceptional items are events or transactions that fall within the activities of the Group and which by virtue of their size or incidence have been disclosed in order to improve a reader's understanding of the financial statements. See note 4 for further information on the nature of exceptional items.

r) Financing income and costs

Financing costs comprise interest payable, finance charges on finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions (including the net defined benefit obligations), and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy).

Financing income comprises interest receivable on funds invested and net foreign exchange gains.

Foreign currency gains and losses are reported on a net basis.

s) Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Notes to the consolidated financial statements (continued)

1.2 Accounting policies *(continued)*

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

t) Segmental analysis

The Group reports its operations for segmental purposes under the headings Roadside Assistance, Insurance Services, Driving Services, Ireland, Insurance Underwriting and Head Office costs. These are the segments that are reported for management purposes. Segments are based on business operations because this is where Group risk and return is focussed, with the exception of Ireland which represents the Group's only material operations outside of the UK.

u) Critical accounting estimates and judgements

Estimates and judgements are evaluated continually and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions about the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The principal estimates and assumptions that have a risk of causing an adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

Income taxes

The Group is subject to taxes in the UK and Ireland. At each financial period end, judgement is required in determining the provision for taxes. The Group recognises liabilities for anticipated tax issues based on the best estimates at the balance sheet date. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Vacant property provisions

The Group makes a provision against the future lease costs of vacant properties for the remaining period of the lease, net of sub-letting income. The provision is calculated on a pre-tax discounted basis.

Retirement benefit obligation

The Group's retirement benefit obligation, which is actuarially assessed each period, is based on key assumptions including return on plan assets, discount rates, inflation, future salary and pension costs. These assumptions may be different to the actual outcome.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash generating unit to which goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating unit and apply an appropriate pre-tax discount rate.

Notes to the consolidated financial statements (continued)

2 Segmental information

in millions of pounds	**2014**	2013	2012
Trading revenue			
Roadside Assistance	**697.6**	679.3	648.5
Insurance Services	**148.9**	162.1	168.4
Driving Services	**87.5**	91.3	93.7
Ireland	**39.6**	38.3	42.3
Insurance Underwriting	**-**	-	25.8
Total Trading revenue	**973.6**	971.0	978.7
Unallocated revenue	**-**	(3.0)	(4.8)
Total revenue	**973.6**	968.0	973.9
Trading EBITDA			
Roadside Assistance	**343.9**	318.8	299.3
Insurance Services	**89.4**	93.1	87.3
Driving Services	**19.9**	18.4	14.7
Ireland	**15.0**	13.0	14.2
Insurance Underwriting	**-**	0.6	2.0
Head Office costs	**(45.3)**	(49.3)	(49.4)
Total Trading EBITDA	**422.9**	394.6	368.1
Depreciation	**(27.5)**	(28.1)	(29.4)
Amortisation of intangible assets	**(12.1)**	(9.8)	(7.3)
Acquisition earn-out costs	**(2.0)**	(1.8)	(1.2)
Exceptional items	**(14.3)**	(30.0)	(16.7)
Other items not allocated to a segment	**5.2**	(4.3)	(5.0)
Operating profit	**372.2**	320.6	308.5
Profit on disposal of joint venture	**0.4**	3.1	0.6
Loss on disposal of subsidiary	**(3.4)**	-	-
Net finance costs	**(154.6)**	(11.0)	(12.0)
Profit before tax	**214.6**	312.7	297.1

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

Notes to the consolidated financial statements (continued)

2 Segmental information *(continued)*

For management purposes, the Group is organised into business units based on their products and services, with the exception of Ireland, which represents a separate geographical area. The Group has six reportable operating segments as follows:

- *Roadside Assistance:* This segment is the largest part of the AA business. The AA provides a nationwide service, sending patrols out to members stranded at the side of the road, repairing their vehicles where possible and getting them back on their way quickly and safely.
- *Insurance Services:* This segment includes the insurance brokerage activities of the AA, primarily in arranging motor and home insurance for customers, its home emergency activities and its intermediary financial services business.
- *Driving Services:* This segment contains the AA Driving School and the British School of Motoring, which are the two largest driving schools in the UK, as well as AA Drivetech, which provides driver training and educative programmes. The Driving Services segment also includes the AA's publishing and related media activities.
- *Ireland:* This segment competes in the same segment types as the AA UK business, with the largest part of its business being Roadside Assistance and Insurance Services.
- *Insurance Underwriting:* This segment consists of a reinsurance company, which historically reinsured certain private motor insurance business from the Acromas group's dedicated underwriter, Acromas Insurance Company Limited (AICL).
- *Head Office costs:* This segment includes IT, finance, property and other back office support functions.

Segment performance is primarily evaluated using the Group's key performance measure of Trading EBITDA.

Trading EBITDA is profit after tax as reported adjusted for depreciation, amortisation, net finance costs, taxation, exceptional items, acquisition earn-out costs, items not allocated to a segment and profit on disposal of joint venture.

Items not allocated to a segment relate to transactions that do not form part of the on-going segment performance and include transactions which are one–off in nature. In the year ended 31 January 2014 these principally relate to the difference between the cash contributions to the pension schemes for on-going service and the calculated annual service cost and include the benefit of the past service cost in the ROI pension scheme of £12.4 million (see note 25). Unallocated revenue relates to a historic allocation to a fellow subsidiary undertaking that did not relate to the ongoing segment performance and ended in July 2012.

Depreciation, amortisation, net finance costs, profit on disposal of joint venture, exceptional items, net finance costs and tax expense are not allocated to individual segments as they are managed on a group basis.

Notes to the consolidated financial statements (continued)

3 Other operating income

in millions of pounds	**2014**	2013	2012
Interest on restricted cash and cash equivalents	**0.1**	0.7	1.2
Interest on balances due from fellow subsidiary undertakings related to insurance underwriting	**-**	0.7	1.2
	0.1	1.4	2.4

See note 17 for information on restricted cash balances.

4 Operating profit

Operating profit is stated after charging:

in millions of pounds	**2014**	2013	2012
Amortisation of owned intangible assets	**12.1**	9.8	7.3
Depreciation of owned tangible fixed assets	**11.5**	12.7	11.7
Depreciation of leased tangible fixed assets	**16.0**	15.4	17.7
Operating lease rentals payable – land and buildings	**3.3**	4.8	4.8
Operating lease rentals payable – plant and machinery	**10.2**	10.7	11.6
Exceptional items			
Exceptional item – cost of sales	**-**	-	7.4
Exceptional item – administrative and marketing expenses	**14.3**	30.0	9.3
	14.3	30.0	16.7

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

The administrative and marketing expenses exceptional items for the year ended 31 January 2014 include £13.6m relating to the refinancing transaction. The remaining exceptional items in the year to 31 January 2014 as well as those incurred for the prior years relate mainly to restructuring expenditure costs in respect of redundancy payments and onerous property lease costs from the re-organising of Group operations.

Notes to the consolidated financial statements (continued)

5 (a) Finance costs

in millions of pounds	**2014**	2013	2012
Interest on external borrowings	**(115.9)**	(0.1)	(0.1)
Finance charges payable under finance leases	**(2.8)**	(4.5)	(4.4)
Total cash finance costs	**(118.7)**	(4.6)	(4.5)
Amortisation of debt issue fees	**(29.1)**	-	-
Net finance expense on defined benefit pension schemes	**(6.8)**	(6.4)	(6.9)
Unwinding of discount and effect of changes in discount rate on provisions	**(0.2)**	(0.3)	(0.8)
Other finance charges	**(0.1)**	-	(0.1)
Total non-cash finance costs	**(36.2)**	(6.7)	(7.8)
Total finance costs	**(154.9)**	(11.3)	(12.3)

Amortisation of debt issue fees include £20.3m that was immediately written off following the repayment of the Senior Term Facility (see note 20).

Other finance charges mainly relate to exchange differences.

5 (b) Finance income

in millions of pounds	**2014**	2013	2012
Interest receivable	**0.3**	-	-
Other finance income	**-**	0.3	0.3
Total finance income	**0.3**	0.3	0.3

Other finance income mainly relates to exchange differences.

6 Staff costs

in millions of pounds	**2014**	2013	2012
Wages and salaries	**235.9**	248.6	250.9
Social security costs	**23.0**	23.1	23.3
Retirement benefit costs	**25.8**	24.8	18.9
	284.7	296.5	293.1

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

	2014	2013	2012
Operational	**6,694**	7,115	7,313
Management and administration	**1,455**	1,546	1,428
	8,149	8,661	8,741

Notes to the consolidated financial statements (continued)

7 Directors' remuneration

in millions of pounds	**2014**	2013	2012
Directors' emoluments	**4.6**	1.2	0.9
Company contributions to money purchase pension plans	**-**	-	-
Aggregate remuneration in respect of qualifying services	**4.6**	1.2	0.9
Members of defined pension schemes	**2**	2	2
The amounts paid in respect of the highest paid director were as follows:			
Remuneration	2.3	0.6	0.5

The accrued pension at 31 January 2014 of the highest paid director was £31,000 at 31 January 2014 (2013: £28,000; 2012: £25,000).

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

J A Goodsell and S M Howard are also directors of the ultimate holding company and fellow subsidiaries and received total remuneration for the year of £2.4m (2013: £2.4m; 2012: £2.4m) all of which was paid by Saga Group Limited. Neither of these directors received any remuneration during the current or comparative years in respect of their services as directors of AA Limited or its subsidiaries and it would not be practicable to apportion their remuneration between their services as directors of the Acromas group and their services as directors of AA Limited and its subsidiaries.

Notes to the consolidated financial statements (continued)

8 Tax

The major components of the income tax expense are:

in millions of pounds	**2014**	2013	2012
Consolidated income statement			
Current income tax			
Current income tax charge	**7.1**	72.3	68.5
Adjustments in respect of previous years	**0.4**	1.0	1.2
	7.5	73.3	69.7
Deferred tax			
Effect of tax rate change on opening balances	**6.5**	4.0	3.8
Relating to origination and reversal of temporary differences – current year	**32.2**	0.1	1.4
Relating to origination and reversal of temporary differences – prior years	**(1.0)**	(0.6)	0.4
	37.7	3.5	5.6
Tax expense in the income statement	**45.2**	76.8	75.3

in millions of pounds	**2014**	2013	2012
Consolidated statement of comprehensive income			
Tax on the effective portion of changes in fair value of cash flow hedges	**(1.6)**	-	-
Tax on remeasurements of defined benefit pension liability	**(24.5)**	(4.5)	(6.0)
Income tax charged directly to other comprehensive income	**(26.1)**	(4.5)	(6.0)

Reconciliation of tax expense to profit before tax multiplied by UK's corporation tax rate:

in millions of pounds	**2014**	2013	2012
Profit before tax	**214.6**	312.7	297.1
Tax at rate of 23.2% (2013: 24.3% and 2012: 26.3%)	**49.7**	76.1	78.1
Movement on unprovided deferred tax	**(7.4)**	(6.1)	(10.7)
Lower rate of foreign tax	**(0.8)**	(0.8)	(1.5)
Adjustments relating to prior years	**(0.6)**	0.4	1.6
Rate change adjustment on temporary differences	**2.9**	6.7	6.9
Expenses not deductible for tax purposes:			
- Fair value adjustments	**-**	-	0.1
- Other non-deductible expenses / non-taxed income	**1.4**	0.5	0.8
Income tax expense reported in the consolidated income statement	**45.2**	76.8	75.3

Notes to the consolidated financial statements (continued)

8 Tax *(continued)*

Deferred tax by type of temporary difference

	Consolidated statement of financial position			Consolidated income statement		
in millions of pounds	**2014**	2013	2012	**2014**	2013	2012
Accelerated depreciation for tax purposes	**10.9**	14.1	17.7	**3.0**	3.7	8.7
Revaluations of land and buildings to fair value	**(1.2)**	(1.4)	(1.5)	**(0.2)**	(0.1)	(0.2)
Rollover relief	**(2.1)**	(2.4)	(2.6)	**(0.3)**	(0.2)	(0.3)
Pension	**8.1**	29.7	25.6	**46.3**	0.4	1.8
Revaluation of cashflow hedges	**1.6**	-	-	**-**	-	-
Short-term temporary differences	**3.5**	4.8	4.1	**1.3**	(0.7)	(0.8)
Losses available for offsetting against future taxable income	**15.6**	3.2	3.7	**(12.4)**	0.4	(3.6)
Deferred tax expense				**37.7**	3.5	5.6
Net deferred tax assets	**36.4**	48.0	47.0			

Reconciliation of net deferred tax assets

in millions of pounds	**2014**	2013	2012
At 1 February	**48.0**	47.0	46.6
Tax expense recognised in the income statement	**(37.7)**	(3.5)	(5.6)
Tax income recognised in OCI	**26.1**	4.5	6.0
At 31 January	**36.4**	48.0	47.0

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

As a result of the borrowings outlined in note 20 and the asset-backed funding scheme for the AA UK pension scheme detailed in note 25, the Group has reduced its estimated liability for corporation tax for the year ended 31 January 2014. This has resulted in a £39.5m release of the AA UK pension deferred tax asset which was partially used to offset current year taxable profits, and created carried forward losses available for offsetting against future taxable income.

Deferred tax has been recognised at 20% for the UK at 31 January 2014 (2013: 23%; 2012: 25%) and 12.5% for AA Ireland (2013 and 2012: 12.5%).

The Group has tax losses which arose in the UK of £194.4m (2013: £148.9m; 2012: £162.9m) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of those losses that are not expected to be utilised within 12 months of the year-end. These unprovided losses may not be used to offset taxable profits elsewhere in the Group as they have arisen in subsidiaries that have been loss-making for some time, and there are no other tax planning opportunities or other evidence of recoverability in the near future. If the Group were able to recognise all unrecognised deferred tax assets, the profit would increase by £23.3m.

Notes to the consolidated financial statements (continued)

9 Cash flow from operating activities

in millions of pounds	**2014**	2013	2012
Profit before tax	**214.6**	312.7	297.1
Amortisation of intangibles	**12.1**	9.8	7.3
Depreciation of tangible fixed assets	**27.5**	28.1	29.4
Finance costs	**154.9**	11.3	12.3
Finance income	**(0.3)**	(0.3)	(0.3)
Other operating income	**(0.1)**	(1.4)	(2.4)
Share of profit of associates	**(0.4)**	(0.7)	(0.4)
Profit on disposal of joint venture	**(0.4)**	(3.1)	(0.6)
Loss on disposal of subsidiary	**3.4**	-	-
Working capital adjustments:			
Decrease in inventories	**0.4**	-	0.5
Decrease/(increase) in trade and other receivables	**36.5**	2.4	(4.0)
(Decrease)/increase in trade and other payables	**(10.1)**	26.1	18.5
(Decrease)/increase in provisions	**(22.2)**	11.0	(3.8)
Increase/(decrease) in insurance technical provisions	**0.6**	(36.6)	(9.8)
(Decrease) in defined benefit pension scheme liabilities	**(19.6)**	(6.6)	(12.5)
Net cash flows from operating activities before tax	**396.9**	352.7	331.3
Tax paid	**(8.2)**	(56.1)	(60.8)
Net cash flows from operating activities	**388.7**	296.6	270.5

Notes to the consolidated financial statements (continued)

10 Goodwill and other intangible fixed assets

in millions of pounds	Goodwill	Software	Total
Cost			
At 1 February 2011	1,193.7	52.4	1,246.1
Additions	3.2	13.1	16.3
Disposals	-	(0.2)	(0.2)
At 31 January 2012	1,196.9	65.3	1,262.2
Additions	0.9	15.3	16.2
Disposals	-	(0.3)	(0.3)
At 31 January 2013	1,197.8	80.3	1,278.1
Additions	-	19.9	19.9
Disposals	-	(0.1)	(0.1)
At 31 January 2014	**1,197.8**	**100.1**	**1,297.9**
Amortisation and impairment			
At 1 February 2011	-	24.0	24.0
Amortisation	-	7.3	7.3
At 31 January 2012	-	31.3	31.3
Amortisation	-	9.8	9.8
Disposals	-	(0.3)	(0.3)
At 31 January 2013	-	40.8	40.8
Amortisation	-	12.1	12.1
At 31 January 2014	**-**	**52.9**	**52.9**
Net book value			
At 31 January 2014	**1,197.8**	**47.2**	**1,245.0**
At 31 January 2013	1,197.8	39.5	1,237.3
At 31 January 2012	1,196.9	34.0	1,230.9

Additions relate to business combinations disclosed in note 11 below.

Within software, £12.0m (2013: £7.9m; 2012: £5.5m) relates to assets under construction which are not amortised.

Notes to the consolidated financial statements (continued)

11 Business combinations

Acquisitions during prior years

On 25 September 2012 the Group acquired the entire share capital of Peak Performance Management Limited, a provider of driving services for a total consideration of £0.9m.

On 2 August 2011 the Group acquired the entire share capital of Intelligent Data Systems (UK) Limited, a provider of driving services, for a total consideration of £3.2m.

Goodwill arising on all of these acquisitions represents the growth potential of the business to develop additional business opportunities.

Notes to the consolidated financial statements (continued)

12 Property, plant and equipment

in millions of pounds	Freehold Land & Buildings	Long Leasehold Land & Buildings	Vehicles	Plant & equipment	Total
Cost or valuation					
At 1 February 2011	23.9	8.6	74.7	76.8	184.0
Additions	-	0.1	19.3	14.5	33.9
Disposals	-	-	(19.1)	(0.2)	(19.3)
Exchange adjustments	-	-	(0.1)	(0.3)	(0.4)
Reclassification adjustments	-	(0.3)	-	0.3	-
At 31 January 2012	23.9	8.4	74.8	91.1	198.2
Additions	-	-	10.6	6.4	17.0
Disposals	-	-	(16.1)	(0.9)	(17.0)
Exchange adjustments	-	-	0.1	0.4	0.5
Reclassification adjustments	-	(0.1)	-	0.1	-
At 31 January 2013	23.9	8.3	69.4	97.1	198.7
Additions	-	2.2	9.2	7.8	19.2
Disposals	-	-	(12.2)	(0.3)	(12.5)
Exchange adjustments	-	(0.1)	(0.1)	(0.6)	(0.8)
At 31 January 2014	**23.9**	**10.4**	**66.3**	**104.0**	**204.6**
Depreciation and impairment					
At 1 February 2011	3.7	2.1	39.2	44.2	89.2
Charge for the year	0.6	0.5	17.2	11.1	29.4
Disposals	-	-	(18.4)	-	(18.4)
Exchange adjustments	-	-	(0.1)	(0.1)	(0.2)
Reclassification adjustments	-	(0.2)	-	0.2	-
At 31 January 2012	4.3	2.4	37.9	55.4	100.0
Charge for the year	0.6	0.6	14.8	12.1	28.1
Disposals	-	-	(15.7)	(0.5)	(16.2)
Exchange adjustments	-	-	0.1	0.2	0.3
Reclassification adjustments	-	(0.1)	-	0.1	-
At 31 January 2013	4.9	2.9	37.1	67.3	112.2
Charge for the year	0.6	0.5	14.7	11.7	27.5
Disposals	-	-	(11.9)	(0.2)	(12.1)
Exchange adjustments	-	-	-	(0.3)	(0.3)
At 31 January 2014	**5.5**	**3.4**	**39.9**	**78.5**	**127.3**
Net book value					
At 31 January 2014	**18.4**	**7.0**	**26.4**	**25.5**	**77.3**
At 31 January 2013	19.0	5.4	32.3	29.8	86.5
At 31 January 2012	19.6	6.0	36.9	35.7	98.2

Notes to the consolidated financial statements (continued)

12 Property, plant and equipment *(continued)*

The net book amount of vehicles includes £24.8m (2013: £30.0m; 2012: £33.8m) held under finance lease agreements. The accumulated depreciation on these assets is £38.5m (2013: £36.2m; 2012: £36.0m).

The net book amount of other assets includes £1.9m (2013: £3.3m; 2012: £4.8m) in respect of plant & machinery held under finance lease agreements. The accumulated depreciation on these assets is £6.1m (2013: £4.5m; 2012: £2.9m).

13 Investments in associates

in millions of pounds	**2014**	2013	2012
At 31 January	**3.5**	3.4	2.9

The principal associates of the Group which are indirectly held are listed below.

Company	**Country of registration**	**Nature of business**
ARC Europe S.A. (20% interest held)	Belgium	Roadside services
A.C.T.A. Assistance S.A. (22% interest held)	France	Roadside services

14 Inventories

in millions of pounds	**2014**	2013	2012
Work in progress	**0.1**	0.1	1.2
Finished goods	**4.8**	5.2	4.1
	4.9	5.3	5.3

15 Trade and other receivables

in millions of pounds	**2014**	2013	2012
Current			
Short term deposits – restricted (see note17)	**-**	2.1	6.3
Trade receivables	**133.1**	147.9	181.2
Prepayments and accrued income	**21.8**	28.0	26.9
Trade receivables from fellow subsidiary undertakings	**0.6**	121.9	90.3
Other receivables	**4.6**	16.0	10.1
	160.1	315.9	314.8
Non-current			
Interest rate swap derivatives (see note 27)	**1.4**	-	-
Fixed term investments – restricted (see note17)	**-**	9.6	24.7
	1.4	9.6	24.7

Trade receivables from fellow subsidiary undertakings at 31 January 2014 are unsecured, payable within one month and bear no interest (2013 and 2012: unsecured, bear no interest and have no repayment terms).

Notes to the consolidated financial statements (continued)

16 Amounts owed by/to other group undertakings

in millions of pounds	**2014**	2013	2012
Amounts owed by fellow subsidiary undertakings	**-**	1,250.8	979.9
Amounts owed by parent undertaking	**1,204.8**	-	-

Until the refinancing which took place in July 2013, amounts owed by fellow subsidiary undertakings mainly arose as the Group's cash balances were swept centrally to the Acromas group treasury in order to efficiently manage all of the Acromas Holdings Limited group cash balances. These amounts were settled as part of the refinancing in 2013 and replaced by amounts owed by parent undertaking.

Since the refinancing, the Group's cash balances are no longer swept by Acromas treasury.

in millions of pounds	**2014**	2013	2012
Amounts owed to parent undertaking	**(1.9)**	(1,895.6)	(1,886.4)

Upon the acquisition of the Group by Acromas Bid Co Limited the external bank debt outstanding at the time was repaid using funds loaned by Acromas Bid Co Limited. These amounts were unsecured, had no repayment terms, bore no interest and were settled as part of the refinancing.

17 Cash and cash equivalents

in millions of pounds	**2014**	2013	2012
Cash at bank and in hand – available	**127.6**	8.8	7.5
Cash at bank and in hand – restricted	**17.1**	23.1	21.6
Cash and cash equivalents per balance sheet	**144.7**	31.9	29.1
Short term deposits – restricted	**-**	2.1	6.3
Cash and cash equivalents in the cash flow statement	**144.7**	34.0	35.4

Cash at bank and in hand, short term deposits and fixed term investments (see note 15) include £17.1m (2013: £34.8m, 2012: £52.6m) held by and on behalf of the Group's insurance businesses which are subject to contractual or regulatory restrictions. These amounts are not readily available to be used for other purposes within the Group.

Notes to the consolidated financial statements (continued)

18 Trade and other payables

in millions of pounds	**2014**	2013	2012
Current			
Trade payables	**102.1**	112.0	152.0
Trade payables owed to group undertakings	**12.7**	123.7	30.0
Other taxes and social security costs	**21.1**	21.6	23.4
Accruals and deferred income	**272.8**	273.9	274.5
Other payables	**32.3**	29.2	38.0
Obligations under finance lease agreements (note 29)	**12.1**	17.8	16.4
	453.1	578.2	534.3

Trade payables owed to group undertakings as at 31 January 2014 arose under arrangements permitted by the financing transaction documents. These amounts are unsecured, are payable between one and three months and bear no interest (2013 and 2012: unsecured, bear no interest and had no repayment terms).

19 Borrowings and loans

in millions of pounds	**2014**	2013	2012
Borrowings (see note 20)	**2,997.7**	-	-
Interest rate swap used for hedging (see note 27)	**9.2**	-	-
	3,006.9	-	-

Notes to the consolidated financial statements (continued)

20 Borrowings

in millions of pounds	Expected maturity date	Interest rate	Principal	Issue costs	Amortised issue costs	Total
Senior Term Facility	31 July 2018	Variable	913.0	(46.4)	26.4	**893.0**
Class A1 notes	31 July 2018	4.72%	475.0	(3.0)	0.4	**472.4**
Class A2 notes	31 July 2025	6.27%	500.0	(0.8)	0.1	**499.3**
Class A3 notes	31 July 2020	4.25%	500.0	(2.8)	0.1	**497.3**
Class B notes	31 July 2019	9.50%	655.0	(21.4)	2.1	**635.7**
			3,043.0	**(74.4)**	**29.1**	**2,997.7**

A summary of the Group's refinancing transactions during the year to 31 January 2014 is shown below:

in millions of pounds	Senior term facility	Class A1	Class A2	Class A3	Class B	Total
Issue date:						
2 July 2013	1,775.0	300.0	325.0	-	655.0	**3,055.0**
27 August 2013	(362.0)	175.0	175.0	-	-	**(12.0)**
29 November 2013	(500.0)	-	-	500.0	-	**-**
Total	**913.0**	**475.0**	**500.0**	**500.0**	**655.0**	**3,043.0**

At 31 January 2014, the Senior Term Facility carried interest at a rate of LIBOR plus a margin of 3%. The margin increases by 0.5% every six months from 1 July 2014. The variable element has been fully hedged using matching interest rate swap arrangements. All other borrowings have fixed interest rates.

On 2 July 2013, the Group also entered into a Working Capital Facility of £150.0m and a Liquidity Facility of £220.0m incurring issue costs of £5.5m and £3.8m respectively. These costs were written off in July 2013.

In order to show the Group's net borrowing, the notes and the issue costs have been offset. Issue costs are shown net of any premium on the issue of borrowings.

All of the Class A notes and Senior Term Facility are secured by first ranking security in respect of the undertakings and assets of AA Intermediate Co Limited and its subsidiaries. The Class A facility security over the AA Intermediate Co group's assets ranks ahead of the Class B notes. The Class B notes have first ranking security over the assets of the immediate parent undertaking of the AA Intermediate Co group, AA Mid Co Limited. There are restrictions on the ability of the AA Mid Co Limited group to pay a dividend until certain net debt to EBITDA ratios have been achieved.

The Class B notes have an initial non-call period of up to two years from the year end when no voluntary repayments can be made, after this there is a two year period when any voluntary early repayments would incur a make-whole payment. The Class A notes do not have a non-call period, however any voluntary early repayments would incur a make-whole payment.

Following the repayments of the Senior Term Facility, amortisation of the associated issue fees has been accelerated and an additional £20.3m has been written off in the period.

As at 31 January 2013 and 2012, there were no external borrowings.

Notes to the consolidated financial statements (continued)

21 Provisions

in millions of pounds	Property Leases	Restructuring	Other	Total
At 1 February 2011	37.9	0.8	3.3	42.0
Utilised during the year	(4.5)	(0.8)	(4.1)	(9.4)
Released unutilised during the year	-	(0.2)	-	(0.2)
Unwinding of discount rate	0.8	-	-	0.8
Charge for the year	0.1	2.8	2.7	5.6
At 31 January 2012	34.3	2.6	1.9	38.8
Utilised during the year	(4.4)	(1.9)	(1.3)	(7.6)
Released unutilised during the year	(3.6)	(0.6)	(0.6)	(4.8)
Unwinding of discount rate	0.3	-	-	0.3
Charge for the year	8.7	13.6	0.8	23.1
At 31 January 2013	35.3	13.7	0.8	49.8
Utilised during the year	(6.0)	(14.9)	(1.1)	(22.0)
Released unutilised during the year	(5.8)	(0.2)	-	(6.0)
Unwinding of discount rate	0.2	-	-	0.2
Charge for the year	1.3	2.9	1.4	5.6
At 31 January 2014	**25.0**	**1.5**	**1.1**	**27.6**

Current	9.3	1.5	1.1	11.9
Non-current	15.7	-	-	15.7
At 31 January 2014	**25.0**	**1.5**	**1.1**	**27.6**
Current	8.6	13.7	0.8	23.1
Non-current	26.7	-	-	26.7
At 31 January 2013	35.3	13.7	0.8	49.8
Current	6.1	2.6	1.9	10.6
Non-current	28.2	-	-	28.2
At 31 January 2012	34.3	2.6	1.9	38.8

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

The restructuring provision relates to redundancy and other related costs following the restructuring of operations in the current and prior periods.

Other provisions primarily comprise the provision for credit and rewards in the financial services business. These items are reviewed and updated annually.

Notes to the consolidated financial statements (continued)

22 Insurance technical provisions

in millions of pounds	**2014**	2013	2012
Outstanding claims provisions	**0.2**	2.9	19.8
Other technical provisions – provisions for incurred but not reported claims	**-**	0.3	20.0
	0.2	3.2	39.8

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

The reduction in technical provisions in the year ended 31 January 2014, principally relates to the sale of the Group's reinsurance vehicle, Acromas Reinsurance Company Limited to a parent undertaking following the refinancing in July 2013.

In October 2012, a significant reinsurance contract was terminated and all associated assets (mainly amounts due from fellow subsidiary undertakings) and liabilities (mainly insurance technical provisions) were commuted back to the original insurer. No liabilities in respect of this class of business remain.

23 Called up share capital

in millions of pounds	**2014**	2013	2012
Allotted, called up and fully paid			
20,000,002 ordinary shares of £1 each	**20.0**	20.0	20.0
	20.0	20.0	20.0

The voting rights of the holders of all ordinary shares are the same and all ordinary shares rank pari passu on a winding up.

Notes to the consolidated financial statements (continued)

24 Reserves

in millions of pounds	Cashflow hedge reserve	Currency translation reserve	Retained earnings	Total
At 1 February 2011	-	-	(165.7)	(165.7)
Retained profit for the year	-	-	221.8	221.8
Other comprehensive income:				
Exchange differences on translation of foreign operations	-	(0.1)	-	(0.1)
Remeasurement losses on defined benefit schemes (note 25)	-	-	(24.7)	(24.7)
Tax effect of remeasurement losses on defined benefit schemes (note 8)	-	-	6.0	6.0
At 31 January 2012	-	(0.1)	37.4	37.3
Retained profit for the year	-	-	235.9	235.9
Other comprehensive income:				
Exchange differences on translation of foreign operations	-	(0.9)	-	(0.9)
Remeasurement losses on defined benefit schemes (note 25)	-	-	(21.2)	(21.2)
Tax effect of remeasurement losses on defined benefit schemes (note 8)	-	-	4.5	4.5
At 31 January 2013	-	(1.0)	256.6	255.6
Retained profit for the year	-	-	169.4	169.4
Other comprehensive income:				
Exchange differences on translation of foreign operations	-	(0.1)	-	(0.1)
Remeasurement losses on defined benefit schemes (note 25)	-	-	(122.7)	(122.7)
Tax effect of remeasurement losses on defined benefit schemes (note 8)	-	-	24.5	24.5
Dividends paid	-	-	(1,227.1)	(1,227.1)
Capital contribution	-	-	1.6	1.6
Effective portion of changes in fair value of cash flow hedges	(7.8)	-	-	(7.8)
Tax effect of effective portion of changes in fair value of cash flow hedges	1.6	-	-	1.6
At 31 January 2014	**(6.2)**	**(1.1)**	**(897.7)**	**(905.0)**

Currency translation reserve: The translation reserve comprises all foreign exchange differences arising since 1 February 2011, the transition date to Adopted IFRS, from the translation of the financial statements of foreign operations, as well as from the translation of liabilities that hedge the Group's net investment in a foreign subsidiary.

Cash flow hedge reserve: The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Dividends: In the year 31 January 2014, total dividends of £61 per qualifying ordinary share were paid.No dividends have been proposed by the directors after the balance sheet date.

Capital Contribution: The capital contribution relates to a realised gain following the forgiveness of amounts due to a parent undertaking.

Notes to the consolidated financial statements (continued)

25 Pensions

The Group operates two funded defined benefit pension schemes: the AA UK Pension scheme (AAUK) and the AA Ireland Pension scheme (AAROI). The assets of the schemes are held separately from those of the Group in independently administered funds. New entrants to the AAUK scheme accrue benefits on a career average salary basis. The AAUK scheme has final salary sections that are closed to new entrants but open to future accrual for existing members. The AAROI scheme is closed to new entrants and future accrual of benefits. The Group also operates an unfunded post-retirement Private Medical Plan scheme (AAPMP), which is a defined benefit scheme that is not open to new entrants.

On 29 November 2013, the Group completed the AAUK pension scheme triennial valuations agreeing a deficit of £202m with the pension trustees and implementing an asset backed funding scheme. The asset backed funding scheme provides a long-term deficit reduction plan where the Group has an annual deficit reduction contribution of £12.2m increasing with inflation, over a period of up to 25 years secured on the Group’s brands and gives a one-off £198.0m tax deduction that the Group can utilise within the next two years. This compares with the traditional unsecured deficit reduction plan requiring the deficit to be removed over a substantially shorter period and would have resulted in significantly higher annual deficit contributions.

The valuations have been based on a full assessment of the liabilities of the schemes which have been updated where appropriate to 31 January 2014 by independent qualified actuaries.

The Group expects to pay £24.0m in on-going employer contributions and £13.2m in deficit reduction employer contributions to its defined benefit plans (AAUK and AAROI) in the year ending 31 January 2015.

The amounts recognised in the balance sheet are as follows:

	As at 31 January 2014			
in millions of pounds	AAUK	AAROI	AAPMP	Total
Present value of the defined benefit obligation in respect of pension plans	(1,759.7)	(42.0)	(44.0)	(1,845.7)
Fair value of plan assets	1,546.8	33.4	-	1,580.2
Deficit	**(212.9)**	**(8.6)**	**(44.0)**	**(265.5)**

	As at 31 January 2013			
in millions of pounds	AAUK	AA ROI	AAPMP	Total
Present value of the defined benefit obligation in respect of pension plans	(1,598.5)	(55.1)	(47.5)	(1,701.1)
Fair value of plan assets	1,501.7	33.7	-	1,535.4
Deficit	**(96.8)**	**(21.4)**	**(47.5)**	**(165.7)**

	As at 31 January 2012			
in millions of pounds	AAUK	AAROI	AAPMP	Total
Present value of the defined benefit obligation in respect of pension plans	(1,473.3)	(43.5)	(44.8)	(1,561.6)
Fair value of plan assets	1,393.1	30.3	-	1,423.4
Deficit	**(80.2)**	**(13.2)**	**(44.8)**	**(138.2)**

Notes to the consolidated financial statements (continued)

25 Pensions *(continued)*

The analysis of amounts recognised in the income statement is as follows:

in millions of pounds	During the year ended 31 January 2014			
	AAUK	AAROI	AAPMP	Total
Current service cost	25.0	0.6	0.2	**25.8**
Past service cost	-	(12.4)	-	**(12.4)**
Net interest on the net defined benefit liability	4.1	0.5	2.2	**6.8**
	29.1	**(11.3)**	**2.4**	**20.2**

in millions of pounds	During the year ended 31 January 2013			
	AAUK	AAROI	AAPMP	Total
Current service cost	23.9	0.7	0.2	**24.8**
Net interest on the net defined benefit liability	3.7	0.6	2.1	**6.4**
	27.6	**1.3**	**2.3**	**31.2**

in millions of pounds	During the year ended 31 January 2012			
	AAUK	AAROI	AAPMP	Total
Current service cost	18.0	0.7	0.2	**18.9**
Net interest on the net defined benefit liability	4.2	0.4	2.3	**6.9**
	22.2	**1.1**	**2.5**	**25.8**

A benefit change exercise was carried out within the AAROI scheme during the year, with effect from 31 August 2013 future accrual for employed members ceased and guaranteed post-retirement pension increases became discretionary. The impact of this benefit change was a past service credit of £12.4m in relation to the AAROI scheme.

The analysis of amounts recognised in the statement of other comprehensive income is as follows:

in millions of pounds	During the year ended 31 January 2014			
	AAUK	AAROI	AAPMP	Total
Loss due to changes in demographic assumptions	2.1	-	-	**2.1**
Loss due to changes in financial assumptions	73.5	0.6	1.9	**76.0**
Experience (gain)/loss arising during the year	27.0	-	(6.8)	**20.2**
Asset (gain)/loss during the year	24.5	(0.1)	-	**24.4**
	127.1	0.5	(4.9)	**122.7**
Foreign exchange gain	-	(0.6)	-	**(0.6)**
	127.1	**(0.1)**	**(4.9)**	**122.1**

Notes to the consolidated financial statements (continued)

25 Pensions *(continued)*

in millions of pounds	During the year ended 31 January 2013			
	AAUK	AAROI	AAPMP	Total
Loss due to changes in financial assumptions	73.4	7.8	1.4	**82.6**
Experience (gain)/loss arising during the year	(2.9)	0.1	-	**(2.8)**
Asset gain during the year	(58.0)	(0.6)	-	**(58.6)**
	12.5	7.3	1.4	**21.2**
Foreign exchange loss	-	1.0	-	**1.0**
	12.5	**8.3**	**1.4**	**22.2**

in millions of pounds	During the year ended 31 January 2012			
	AAUK	AAROI	AAPMP	Total
Loss due to changes in financial assumptions	109.3	5.0	2.4	**116.7**
Experience loss/(gain) arising during the year	6.0	(3.1)	-	**2.9**
Asset (gain)/loss during the year	(97.9)	3.0	-	**(94.9)**
	17.4	4.9	2.4	**24.7**
Foreign exchange gain	-	(0.5)	-	**(0.5)**
	17.4	**4.4**	**2.4**	**24.2**

Notes to the consolidated financial statements (continued)

25 Pensions *(continued)*

The amounts recognised in the statement of financial position are reconciled as follows:

Defined benefit obligation

in millions of pounds	AAUK	AAROI	AAPMP	**Total**
Balance at 1 February 2011	1,301.0	41.5	41.1	**1,383.6**
Current service cost	18.0	0.7	0.2	**18.9**
Interest cost	73.8	1.9	2.3	**78.0**
Contribution from scheme participants	1.3	0.3	-	**1.6**
Effect of changes in financial assumptions	109.3	5.0	2.4	**116.7**
Effect of experience adjustment	6.0	(3.1)	-	**2.9**
Benefits paid from scheme assets	(36.1)	(1.4)	(1.2)	**(38.7)**
Foreign exchange gain	-	(1.4)	-	**(1.4)**
Balance at 31 January 2012	1,473.3	43.5	44.8	**1,561.6**
Current service cost	23.9	0.7	0.2	**24.8**
Interest cost	67.5	1.8	2.1	**71.4**
Contribution from scheme participants	1.2	0.3	-	**1.5**
Effect of changes in financial assumptions	73.4	7.8	1.4	**82.6**
Effect of experience adjustment	(2.9)	0.1	-	**(2.8)**
Benefits paid from scheme assets	(37.9)	(1.3)	(1.0)	**(40.2)**
Foreign exchange loss	-	2.2	-	**2.2**
Balance at 31 January 2013	1,598.5	55.1	47.5	**1,701.1**
Current service cost	25.0	0.6	0.2	**25.8**
Past service cost	-	(12.4)	-	**(12.4)**
Interest cost	74.2	1.7	2.2	**78.1**
Contribution from scheme participants	1.2	-	-	**1.2**
Effect of changes in demographic assumptions	2.1	-	-	**2.1**
Effect of changes in financial assumptions	73.5	0.6	1.9	**76.0**
Effect of experience adjustment	27.0	-	(6.8)	**20.2**
Benefits paid from scheme assets	(41.8)	(1.7)	(1.0)	**(44.5)**
Foreign exchange gain	-	(1.9)	-	**(1.9)**
Balance at 31 January 2014	**1,759.7**	**42.0**	**44.0**	**1,845.7**

Notes to the consolidated financial statements (continued)

25 Pensions *(continued)*

Plan Assets

in millions of pounds	AAUK	AAROI	AAPMP	**Total**
Balance at 1 February 2011	1,236.7	32.3	-	**1,269.0**
Interest income on scheme assets	69.6	1.5	-	**71.1**
Return on plan assets excluding interest income	97.9	(3.0)	-	**94.9**
Ongoing employer contributions	18.7	0.8	1.2	**20.7**
Deficit reduction employer contributions	5.0	0.7	-	**5.7**
Contribution from scheme participants	1.3	0.3	-	**1.6**
Benefits paid from scheme assets	(36.1)	(1.4)	(1.2)	**(38.7)**
Foreign exchange gain	-	(0.9)	-	**(0.9)**
Balance at 31 January 2012	1,393.1	30.3	-	**1,423.4**
Interest income on scheme assets	63.8	1.2	-	**65.0**
Return on plan assets excluding interest income	58.0	0.6	-	**58.6**
Ongoing employer contributions	18.5	0.8	1.0	**20.3**
Deficit reduction employer contributions	5.0	0.6	-	**5.6**
Contribution from scheme participants	1.2	0.3	-	**1.5**
Benefits paid from scheme assets	(37.9)	(1.3)	(1.0)	**(40.2)**
Foreign exchange loss	-	1.2	-	**1.2**
Balance at 31 January 2013	1,501.7	33.7	-	**1,535.4**
Interest income on scheme assets	70.1	1.2	-	**71.3**
Return on plan assets excluding interest income	(24.5)	0.1	-	**(24.4)**
Ongoing employer contributions	18.0	0.4	1.0	**19.4**
Deficit reduction employer contributions	22.1	1.0	-	**23.1**
Contribution from scheme participants	1.2	-	-	**1.2**
Benefits paid from scheme assets	(41.8)	(1.7)	(1.0)	**(44.5)**
Foreign exchange gain	-	(1.3)	-	**(1.3)**
Balance at 31 January 2014	**1,546.8**	**33.4**	**-**	**1,580.2**

Fair value of plan assets

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

Notes to the consolidated financial statements (continued)

25 Pensions *(continued)*

The fair value of the plan assets and the return on those assets were as follows:

	AAUK			AAROI		
in millions of pounds	**2014**	2013	2012	**2014**	2013	2012
Equities	**467.2**	440.1	465.3	**14.5**	19.0	16.7
Bonds	**653.5**	648.7	562.8	**12.5**	13.6	11.9
Property	**133.5**	105.1	108.7	**-**	-	-
Hedge funds	**263.7**	292.8	214.5	**6.1**	1.1	1.8
Cash / net current assets	**28.9**	15.0	41.8	**0.3**	-	(0.1)
Total plan assets	**1,546.8**	**1,501.7**	**1,393.1**	**33.4**	**33.7**	**30.3**
Actual return on plan assets	**45.6**	**121.8**	**167.5**	**1.3**	**1.8**	**(1.5)**

Detail of plan assets quoted in an active market

The table below shows the AAUK plan assets split between those that have a quoted market price and those that are unquoted. Of the AAROI scheme, 18.1% of assets do not have a quoted market price.

in millions of pounds	Assets with a quoted market price	Assets without a quoted market price	Total
Equities	312.3	154.9	467.2
Bonds	587.0	66.5	653.5
Property	16.2	117.3	133.5
Hedge funds	-	263.7	263.7
Cash / net current assets	23.3	5.6	28.9
Total plan assets at 31 January 2014	**938.8**	**608.0**	**1,546.8**

Pension plan assumptions
The principal actuarial assumptions at the January year end were as follows:

	AAUK			AAROI			AAPMP		
%	**2014**	2013	2012	**2014**	2013	2012	**2014**	2013	2012
Pensioner discount rate	**4.2**	4.7	4.6	**2.9**	3.5	4.3	**4.2**	4.7	4.6
Non pensioner discount rate	**4.5**	4.7	4.6	**3.6**	3.5	4.3	**4.5**	4.7	4.6
Pensioner RPI	**3.2**	3.4	3.0	**-**	-	-	**3.2**	3.4	3.0
Non pensioner RPI	**3.4**	3.4	3.0	**-**	-	-	**3.4**	3.4	3.0
Pensioner CPI	**2.2**	2.4	2.0	**2.0**	2.0	2.0	**2.2**	-	-
Non pensioner CPI	**2.4**	2.4	2.0	**2.0**	2.0	2.0	**2.4**	-	-
Rate of increases in salaries	**3.4**	3.4	3.0	**-**	2.0	2.0	**-**	3.4	3.0
Rate of increase of pensions in payment - pensioner	**2.9**	-	-	**-**	2.0	2.0	**-**	-	-
Rate of increase of pensions in payment - non pensioner	**3.0**	-	-	**-**	2.0	2.0	**-**	-	-
Pensioner increase for deferred benefits	**2.4**	2.4	2.0	**2.0**	2.0	2.0	**-**	-	-
Medical premium inflation rate	**-**	-	-	**-**	-	-	**7.2**	7.4	7.0

Notes to the consolidated financial statements (continued)

25 Pensions *(continued)*

Mortality assumptions are set using standard tables based on scheme specific experience where available. Each scheme's mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The AA schemes' assumptions are that an active male retiring in normal health currently aged 60 will live on average for a further 28 years and an active female retiring in normal health currently aged 60 will live on average for a further 30 years.

Sensitivity analysis

The Scheme exposes the Group to actuarial risks such as longevity, interest rate risk and market (investment) risk.

The AA Pension Scheme Trustees have hedged around 50% of interest rate risk and 75% of inflation risk as part of a policy to reduce financial risks to the Scheme.

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

	For the year ending 31 January 2014		
in millions of pounds	AAUK	AA ROI	AAPMP
Increase of 0.25% in discount rate	(81.4)	(2.4)	(1.6)
Increase of 0.25% in Inflation rate	79.7	1.0	-
Increase of 1% in medical claims inflation	-	-	5.8
Increase of one year of life expectancy	47.4	1.3	-

An equivalent decrease in the assumptions at 31 January 2014 would have had the equal but opposite effect on the amounts shown above, on the basis that all other variables remain constant.

The weighted average duration of plan liabilities at 31 January 2014 is 22 years.

Notes to the consolidated financial statements (continued)

26 Impairment of intangible assets

Goodwill acquired through business combinations has been allocated to cash-generating units ("CGUs") on initial recognition and for subsequent impairment testing.

The carrying value of goodwill by CGU is as follows:

in millions of pounds	**2014**	2013	2012
Roadside Assistance	**874.2**	874.2	874.2
Insurance Services	**240.2**	240.2	240.2
Driving Services	**57.8**	57.8	56.9
Ireland	**25.6**	25.6	25.6
	1,197.8	1,197.8	1,196.9

The Group has performed impairment testing at 31 January 2014, 31 January 2013 and 31 January 2012. The impairment test compares the recoverable amount of the CGU to its carrying value.

The recoverable amount of each CGU has been determined based on a value in use calculation using cash flow projections from the Group's three year plan up to 31 January 2017 and a reasonable expectation of growth in the subsequent two years. For the purposes of the impairment test terminal values have been calculated using the Gordon growth model and a nil growth assumption which is lower than the expected long term average growth rate of the UK economy. Cash flows have been discounted at a pre-tax rate reflecting the time value of money and the risk specific to these cash flows. This has been determined as a pre-tax rate of 12.2% (2013: 12.2%; 2012: 12.2%).

The value in use calculation used is most sensitive to the assumptions used for growth and for the discount rate. Accordingly, stress testing has been performed on these key assumptions as part of the impairment test to further inform the consideration of whether any impairment is evident. Further to this, management believes that no reasonably foreseeable change in any of the key assumptions would cause the recoverable amount of the CGU to be lower than its carrying amount, and consequently no impairment has been recognised.

Notes to the consolidated financial statements (continued)

27 Financial assets and financial liabilities

The carrying amount of all financial assets and financial liabilities by class are as follows:

Financial assets

in millions of pounds	**2014**	2013	2012
Measured at fair value through other comprehensive income			
Interest rate swaps used for hedging	**1.4**	-	-
Loans and receivables			
Cash and cash equivalents	**144.7**	31.9	29.1
Short term deposits	**-**	2.1	6.3
Trade receivables	**133.1**	147.9	181.2
Trade receivables from fellow subsidiary undertakings	**0.6**	121.9	90.3
Other receivables and accrued income	**17.8**	38.0	28.8
Fixed term investments	**-**	9.6	24.7
Amounts owed by fellow subsidiary undertakings	**-**	1,250.8	979.9
Amounts owed by parent undertaking	**1,204.8**	-	-
Total financial assets	**1,502.4**	1,602.2	1,340.3

Financial liabilities

in millions of pounds	**2014**	2013	2012
Measured at fair value through other comprehensive income			
Interest rate swaps used for hedging	**9.2**	-	-
Loans and borrowings			
Trade payables	**102.1**	112.0	152.0
Trade payables owed to group undertakings	**12.7**	123.7	30.0
Other payables	**59.8**	55.4	59.3
Obligations under finance lease agreements	**20.0**	31.4	33.5
Borrowings	**2,997.7**	-	-
Amounts owed to parent undertaking	**1.9**	1,895.6	1,886.4
Total financial liabilities	**3,203.4**	2,218.1	2,161.2

Notes to the consolidated financial statements (continued)

27 Financial assets and financial liabilities *(continued)*

Fair values

Financial instruments held at fair value are valued using quoted market prices or other valuation techniques.

Valuation techniques include net present value and discounted cash flow models, and comparison to similar instruments for which market observable prices exist. Assumptions and market observable inputs used in valuation techniques include interest rates.

The objective of using valuation techniques is to arrive at a fair value that reflects the price of the financial instrument at each year end at which the asset or liability would have been exchanged by market participants acting at arm's length.

Observable inputs are those that have been seen either from counterparties or from market pricing sources and are publicly available. The use of these depends upon the liquidity of the relevant market. When measuring the fair value of an asset or a liability, the Group uses observable inputs as much as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation as follows:

Level 1 - Quoted market prices in an actively traded market for identical assets or liabilities. These are the most reliable.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities. These include valuation models used to calculate the present value of expected future cash flows and may be employed either when no active market exists or when there are quoted prices available for similar instruments in active markets. The models incorporate various inputs including interest rate curves and forward rate curves of the underlying instrument.

Level 3 - Inputs for assets or liabilities that are not based on observable market data.

If the inputs used to measure the fair values of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level as the lowest input that is significant to the entire measurements.

The fair values are periodically reviewed by the Group Treasury function. The following tables provide the quantitative fair value hierarchy of the Group's interest rate swaps, obligations under finance leases, loan notes and shareholder loans. The carrying values of all other financial assets and liabilities approximate to their fair values:

At 31 January 2014:

		Fair value measurement using		
in millions of pounds	Carrying value	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial assets measured at fair value				
Interest rate swaps (note 15)	1.4	-	1.4	-
Financial liabilities measured at fair value				
Interest rate swaps (note 19)	9.2	-	9.2	-
Liabilities for which fair values are disclosed				
Obligations under finance leases (note 29)	20.0	-	-	20.2
Loan notes (note 20)	2,104.7	2,289.2	-	-

Notes to the consolidated financial statements (continued)

27 Financial assets and financial liabilities *(continued)*

At 31 January 2013:

in millions of pounds	Carrying value	Fair value measurement using: Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Liabilities for which fair values are disclosed				
Obligations under finance leases (note 29)	31.4	-	-	32.0

At 31 January 2012:

in millions of pounds	Carrying value	Fair value measurement using: Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Liabilities for which fair values are disclosed				
Obligations under finance leases (note 29)	33.5	-	-	34.1

There have been no transfers between the levels and no non-recurring fair value measurements of assets and liabilities during three years to 31 January 2014.

In arriving at the fair value measurement of the finance lease obligations disclosed above, management utilised an income approach (2013 and 2012: income approach) as it deemed it to be the most appropriate for this specific liability. The key assumption used in the valuation of the finance lease obligation was a discount rate of 5.7% (2013: 5.3%; 2012: 4.8%), which is management's estimate of a market rate of return expected for a similar cash flow.

Notes to the consolidated financial statements (continued)

28 Financial risk management objectives and policies

The Group's principal financial liabilities comprise borrowings as well as trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include deposits with financial institutions, money market funds and trade receivables.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks, supported by the Group Treasury function. The Group Treasury function ensures that the Group's financial risks are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. All derivative activities are for risk management purposes and are carried out by the Group Treasury function. It is the Group's policy not to trade in derivatives for speculative purposes.

The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in prices set by the market. The key market risk that the Group is exposed to is interest rate risk. The Group has policies and limits approved by the Board for managing the interest rate risk exposure. The Group's policy is to fully hedge all of its exposure to variable interest rates. The Group has therefore taken out interest rate swaps to the value of its variable rate instruments.

The interest rate profile of the Group's interest-bearing financial instruments is as follows:

in millions of pounds	**2014**	2013	2012
Fixed rate instruments			
Financial assets	**-**	8.7	26.0
Financial liabilities	**(2,124.7)**	(31.4)	(33.5)
	(2,124.7)	(22.7)	(7.5)
Effect of interest rate swaps	**(913.0)**	-	-
Net exposure to fixed rate instruments	**(3,037.7)**	(22.7)	(7.5)
Variable rate instruments			
Financial assets	**-**	3.0	5.0
Financial liabilities	**(893.0)**	-	-
	(893.0)	3.0	5.0
Effect of interest rate swaps	**913.0**	-	-
Net exposure to variable rate instruments	**20.0**	3.0	5.0

Sensitivity of fixed-rate instruments

The Group does not account for any fixed-rate financial assets and financial liabilities at fair value through profit or loss and does not use derivative instruments in fair value hedges. Consequently, having regard to fixed rate instruments, a change in market interest rates at the reporting date would not affect profit or loss.

Sensitivity of variable rate instruments

An increase of 50 basis points in interest rates at 31 January 2014 would have increased equity by £13.8m and had no impact on profit or cash. A decrease to interest rates of the same magnitude will have an equal and opposite effect on equity and profit. This calculation assumes that the change occurred at the year end and had been applied to risk exposures existing at that date.

Notes to the consolidated financial statements (continued)

28 Financial risk management objectives and policies *(continued)*

This analysis assumes that all other variables remain constant and considers the effect of financial instruments with variable interest rates and the fixed rate element of interest rate swaps. The analysis is performed on the same basis for all comparative periods.

As the entity's exposure to variable-rate instruments as at 31 January 2013 and 2012 was insignificant, a reasonable change in interest rates would have had an insignificant effect on the Group's profit or loss and equity.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk in relation to its financial assets, outstanding derivatives and trade and other receivables. The Group assesses its counterparty exposure in relation to the investment of surplus cash and undrawn credit facilities. The Group primarily uses published credit ratings to assess counterparty strength and therefore to define the credit limit for each counterparty, in accordance with approved treasury policies.

The credit risk for the Group is limited as payment from customers is generally required before services are provided.

Credit risk in relation to deposits and derivative counterparties is managed by the Group's treasury function in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. The limits are set to mitigate financial loss through any potential counterparty failure.

The Group's maximum exposure to credit risk for the components of the statement of financial position at each reporting date is the carrying amount except for derivative financial instruments. The Group's maximum exposure for financial derivative instruments is noted under liquidity risk.

The ageing analysis of trade receivables is as follows:

in millions of pounds			Past due but not impaired		
	Total	Neither past due nor impaired	< 30 days	30 - 60 days	60+ days
2014	133.1	127.2	5.3	0.3	0.3
2013	147.9	139.2	7.8	0.7	0.2
2012	181.2	163.0	11.8	3.3	3.1

The movements in the provision for the collective impairment of receivables are as follows:

in millions of pounds	**2014**	2013	2012
At 1 February	**4.4**	4.9	3.9
Charge for the year	**2.7**	3.4	3.7
Utilised	**(3.5)**	(3.6)	(1.9)
Unused amounts reversed	**-**	(0.3)	(0.8)
At 31 January	**3.6**	4.4	4.9

Notes to the consolidated financial statements (continued)

28 Financial risk management objectives and policies *(continued)*

Liquidity risk

Liquidity risk is the risk that the Group either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure them only at excessive cost. The Group's approach to managing liquidity risk is to evaluate current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and headroom on its working capital facilities.

The table below analyses the maturity of the Group's financial liabilities on a contractual undiscounted cash flow basis and includes any associated debt service costs. The analysis of non-derivative financial liabilities is based on the remaining period at the reporting date to the contractual maturity date.

At 31 January 2014:

in millions of pounds	On demand	Less than 1 year	1 to 2 years	2-5 years	over 5 years	Total
Loans and borrowings	-	171.5	185.2	1,940.1	1,921.7	**4,218.5**
Obligation under finance leases	-	13.5	5.5	3.0	-	**22.0**
Amounts owed to parent undertaking	1.9	-	-	-	-	**1.9**
Other payables and accruals	-	59.8	-	-	-	**59.8**
Trade payables	-	114.8	-	-	-	**114.8**
	1.9	359.6	190.7	1,943.1	1,921.7	**4,417.0**
Interest rate swaps used for hedging						
Assets (inflow)	-	(7.5)	(0.4)	(40.1)	-	**(48.0)**
Liabilities	-	19.4	4.9	24.3	-	**48.6**
	-	11.9	4.5	(15.8)	-	**0.6**
	1.9	371.5	195.2	1,927.3	1,921.7	**4,417.6**

At 31 January 2013:

in millions of pounds	On demand	Less than 1 year	1 to 2 years	2-5 years	over 5 years	Total
Obligation under finance leases	-	19.7	11.6	3.3	-	**34.6**
Amounts owed to parent company	1,895.6	-	-	-	-	**1,895.6**
Other payables and accruals	-	55.4	-	-	-	**55.4**
Trade payables	123.7	112.0	-	-	-	**235.7**
	2,019.3	187.1	11.6	3.3	-	**2,221.3**

The Group has not presented a liquidity risk analysis for the year ended 31 January 2012 as management do not have such information reasonably available and do not consider it to be relevant to the current position of the Group.

Notes to the consolidated financial statements (continued)

28 Financial risk management objectives and policies *(continued)*

Capital management

The Group considers its capital to be shareholders equity adjusted for the foreign currency translation reserve, the cashflow hedge reserve and long-term borrowings. The Directors seek to maintain a balance between the higher return that is possible with borrowings and the advantages and security of equity funding.

In the year to 31 January 2014 the Group took out external debt facilities (see note 20) which were initially used to repay the inter-company balances due to the Acromas group. The Company then paid a dividend of £1,227.1 million to the Acromas group and these funds were ultimately used to partially repay existing borrowings of the Acromas group. The Senior Term Facility, Class A notes and Class B notes have interest cover covenants attached to them. The Group was in compliance with all covenants throughout the year and as at 31 January 2014.

The Group includes regulated companies which are required to hold sufficient capital to meet acceptable solvency levels based on the relevant regulator's requirements (see note 17). There are no other externally imposed capital requirements.

29 Commitments and contingencies

Operating lease commitments

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

in millions of pounds	Land and Buildings			Plant and Machinery		
	2014	2013	2012	**2014**	2013	2012
Leases expiring:						
Within one year	**0.8**	1.1	0.6	**3.0**	3.3	1.7
Between one and five years	**16.9**	18.0	19.2	**1.5**	1.5	1.8
After five years	**35.6**	45.3	46.3	**-**	-	-
	53.3	64.4	66.1	**4.5**	4.8	3.5
Income from operating sub-leases	**(9.3)**	(6.9)	(10.7)	**-**	-	-
Amounts included in onerous lease provisions	**(17.9)**	(25.8)	(23.2)	**-**	-	-
	26.1	31.7	32.2	**4.5**	4.8	3.5

Where a property is no longer used by the Group for operational purposes, tenants are sought to reduce the Group's exposure to lease payments. Where the future minimum lease payments are in excess of any expected rental income due, a provision is made.

Notes to the consolidated financial statements (continued)

29 Commitments and contingencies *(continued)*

Finance lease commitments

The Group has finance leases contracts for various items of plant and machinery. Future minimum lease payments under finance leases contracts together with the present value of the net minimum lease payments are as follows:

	2014		2013		2012	
in millions of pounds	**Present value of payments**	**Minimum payments**	Present value of payments	Minimum payments	Present value of payments	Minimum payments
Within one year	**12.1**	**13.5**	17.8	19.7	16.4	18.2
Between one and five years	**7.9**	**8.5**	13.6	14.9	17.1	18.6
Total minimum lease payments	**20.0**	**22.0**	31.4	34.6	33.5	36.8
Less amounts representing finance charge	**-**	**(2.0)**	-	(3.2)	-	(3.3)
Present value of minimum lease payments	**20.0**	**20.0**	31.4	31.4	33.5	33.5

Commitments

Amounts contracted for but not provided in the financial statements amounted to £0.6m (2013: £1.3m, 2012: £2.9m).

Contingent liabilities and cross company guarantees

As part of the refinancing which took place in the year, see note 20, the Company along with certain of its key subsidiaries and other substantial companies across the Group was released from their obligations under the bank loans made to Acromas Mid Co Limited. There are no contingent liabilities or cross-company guarantees as at 31 January 2014 as the new debt is all held within the Group. As at 31 January 2013, the principal, accrued interest, guarantees and other facilities outstanding on the Acromas group bank loans was £5,132.1m.

Notes to the consolidated financial statements (continued)

30 Principal subsidiary undertakings

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

Company	Country of registration	Nature of business
Principal subsidiary undertakings		
The Automobile Association Limited	Jersey	Roadside services
Automobile Association Insurance Services Limited	England	Roadside & insurance services
AA Financial Services Limited	England	Insurance Services
Automobile Association Developments Limited	England	Roadside & driving services
Drivetech (UK) Limited	England	Driving services
AA Media Limited	England	Driving services
AA Ireland Limited	Ireland	Roadside & insurance services
AA Corporation Limited	England	Head office functions
AA Acquisition Co Limited	England	Holding company
AA Senior Co Limited	England	Holding company and group borrowings
AA Bond Co Limited	Jersey	Group borrowings

31 Auditor’s remuneration

in millions of pounds	**2014**	2013	2012
Audit of these financial statements	**0.1**	0.1	0.1
Amounts receivable by the Company’s auditor and its associates in respect of:			
Audit of financial statements of subsidiaries of the Company	**0.7**	0.5	0.5
Corporate finance services	**2.1**	-	-

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

Notes to the consolidated financial statements (continued)

32 Related party transactions

Acromas and Saga entities previously provided the Group with certain services and the Group provided some Acromas and Saga entities with certain services. Following the refinancing, some of these services continue to be provided to the Group in accordance with the Umbrella Services Agreement. Under the Umbrella Services Agreement the Group and Saga agree to procure that their respective groups provide specified services to the other, including fleet management, sales and marketing services relating to certain AA financial products, and IT services. There are also a number of specific additional contracts in place for the provision of services between various members of the respective groups including the provision of underwriting by Acromas Insurance Company Limited ("AICL"), for various AA Group products, such as motor insurance, home insurance and home emergency cover.

The following table provides the total value of transactions that have been entered into with related parties during each financial year.

Transactions with other Acromas group companies:

in millions of pounds	**2014**	2013	2012
Sales to the Saga group			
Insurance underwriting related	**14.8**	16.6	12.4
Non-insurance underwriting related	**0.8**	1.0	0.7
Purchases from the Saga group			
Insurance underwriting related	**52.7**	52.7	63.1
Non-insurance underwriting related	**14.4**	13.6	13.3
Reinsurance transactions with the Saga group			
Reinsurance premium receipts	**-**	6.2	32.7
Reinsurance claims payments	**0.4**	-	25.8

Transactions with associates:

in millions of pounds		**2014**	2013	2012
A.C.T.A. S.A.	Call handling fees paid	**2.2**	1.9	2.2
	Amounts payable at 31 January	**-**	0.1	-
A.R.C. Europe S.A.	Registration fees paid	**0.5**	0.5	0.5
	Amounts payable at 31 January	**0.2**	0.2	0.3

Notes to the consolidated financial statements (continued)

33 Compensation of key management personnel of the Group

The amounts recognised as an expense during the financial year in respect of key management personnel are as follows:

in millions of pounds	**2014**	2013	2012
Short-term employee benefits	**6.9**	3.6	3.2
Post-employment pension and medical benefits	**0.2**	0.2	0.2
Termination payments	**-**	0.1	-
Total compensation paid to key management personnel	**7.1**	3.9	3.4
Number of key management identified	**14**	15	13

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group and comprise the Chief Executive Officer, Chief Financial Officer and the heads of major business units and administrative functions.

34 Ultimate parent undertaking and controlling party

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

The ultimate parent undertaking, which is also the parent of the smallest and largest group to consolidate these financial statements is Acromas Holdings Limited whose registered office is at Enbrook Park, Folkestone, Kent CT20 3SE. Copies of the financial statements of Acromas Holdings Limited are available from the Company Secretary at this address. AA Limited also consolidates these financial statements.

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

35 Events after the reporting period

Subsequent to the year end, the Group issued £250 million of Class A4 notes with an interest rate of 3.78% and an expected maturity date of 31 July 2019. The proceeds from this note issuance were used to partially repay the Initial Senior Term Facility.

Contemporaneously, a New Senior Term Facility and New Working Capital Facility were put in place with the Group’s key relationship banks replacing the Initial Senior Term Facility and Initial Working Capital Facility respectively.

The margin on the New Facilities has been set at 2% per annum over LIBOR with a maturity date of 31 January 2019.

Additional interest rate swaps have been entered into, fixing LIBOR at 1.98% until 31 July 2018 and then at 3.00% until 31 July 2019.

The Roadside assistance contract with Lloyds Banking group (which makes up almost 10% of Group revenue) has now been renewed for five years from April 2014.

Notes to the consolidated financial statements (continued)

36 Standards issued but not yet effective

The following is a list of standards that are in issue but are not effective as at 31 January 2014 but have been endorsed for use in the EU. Accordingly they have been adopted by the Group for the purpose of preparing the consolidated financial information:

- IFRS 10: Consolidated financial statements (effective 1 January 2014);
- IFRS 11: Joint arrangements (effective 1 January 2014);
- IFRS 12: Disclosure of interests in other entities (effective 1 January 2014);
- IAS 27: Amendment: Separate financial statements (effective 1 January 2014);
- IAS 28: Amendment: Investments in associates and joint ventures (effective 1 January 2014);
- IAS 32: Amendment: Offsetting financial assets and financial liabilities (effective 1 January 2014);
- IAS 36: Amendment: Recoverable amount disclosures for non-financial assets (effective 1 January 2014);
- IAS 39: Amendment: Novation of derivatives and continuation of hedge accounting. (effective 1 January 2014).

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards when they become effective.

IFRS 9 Financial Instruments

IFRS 9, "Financial Instruments" will eventually replace IAS 39 but currently only details the requirements for recognition and measurement of financial assets and financial liabilities and hedge accounting. The timing of IFRS 9 is still uncertain and as such, the Group is monitoring developments and considering the associated impact on the Group financial statements

The following standards are not expected to have a significant effect on the financial statements:

- IAS 19: Amendment: Defined benefit plans: Employee contributions (effective 1 July 2014)
- IFRIC 21: Levies
- IFRS 14: Regulatory deferral accounts
- Amendments to IFRS 10, 12 and IAS 27: Investment entities

37 Explanation of transition to Adopted IFRS

As stated in note 1, the Group has applied IFRS 1 *'First-time adoption of International Financial Reporting Standards'* as the Group's most recent consolidated financial statements were not prepared in accordance with Adopted IFRS.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 January 2014, the comparative information presented in these financial statements for the years ended 31 January 2013 and 31 January 2012 and in the preparation of an opening IFRS balance sheet at 1 February 2011 (the Group's date of transition).

In preparing its opening IFRS statement of financial position, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to Adopted IFRS has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Notes to the consolidated financial statements (continued)

37 Explanation of transition to Adopted IFRS *(continued)*

Reconciliation of equity at 1 February 2011 (transition date)

in millions of pounds	*Note*	UK GAAP	Effect of transition to Adopted IFRS	Adopted IFRS
Non-current assets				
Goodwill	*a,b*	2,802.0	(1,608.3)	1,193.7
Other intangible assets	*e*	-	28.4	28.4
Property, plant and equipment	*e,a*	127.3	(32.5)	94.8
Investments in associates		2.5	-	2.5
Deferred tax assets	*f,g,j*	-	46.6	46.6
Other receivables	*h,n*	1.0	23.7	24.7
		2,932.8	(1,542.1)	1,390.7
Current assets				
Inventories		5.8	-	5.8
Trade and other receivables	*f,h,n*	330.0	(22.4)	307.6
Amounts owed by fellow subsidiary undertakings		731.0	-	731.0
Cash and cash equivalents	*n*	89.8	(31.0)	58.8
		1,156.6	(53.4)	1,103.2
Total assets		4,089.4	(1,595.5)	2,493.9
Current liabilities				
Trade and other payables	*a,m*	(523.0)	(11.7)	(534.7)
Amounts owed to parent undertaking		(1,877.9)	-	(1,877.9)
Current tax payable		(0.2)	-	(0.2)
Provisions	*i*	-	(9.8)	(9.8)
		(2,401.1)	(21.5)	(2,422.6)
Non-current liabilities				
Finance lease obligations		(20.6)	-	(20.6)
Other liabilities	*a*	(9.9)	9.9	-
Defined benefit pension scheme liabilities	*j*	(93.1)	(21.5)	(114.6)
Provisions	*i*	(42.0)	9.8	(32.2)
Insurance technical provisions		(49.6)	-	(49.6)
		(215.2)	(1.8)	(217.0)
Total liabilities		(2,616.3)	(23.3)	(2,639.6)
Net assets		1,473.0	(1,618.8)	(145.7)
Equity				
Share capital		20.0	-	20.0
Revaluation reserve		1,255.7	(1,255.7)	-
Foreign currency translation reserve	*k*	0.4	(0.4)	-
Retained earnings	*a,b,g,k,m*	197.0	(362.7)	(165.7)
Total equity attributable to equity holders of the parent		1,473.1	(1,618.8)	(145.7)

Notes to the consolidated financial statements (continued)

37 Explanation of transition to Adopted IFRS *(continued)*

Reconciliation of equity at 31 January 2013

in millions of pounds	*Note*	UK GAAP	Effect of transition to Adopted IFRS	Adopted IFRS
Non-current assets				
Goodwill	*a,b,c,d*	2,471.1	(1,273.3)	1,197.8
Other intangible assets	*e*	-	39.5	39.5
Property, plant and equipment	*e,a*	130.1	(43.6)	86.5
Investments in associates		3.4	-	3.4
Deferred tax assets	*f,g,j*	-	48.0	48.0
Other receivables	*h,n*	1.0	8.6	9.6
		2,605.6	(1,220.8)	1,384.8
Current assets				
Inventories		5.3	-	5.3
Trade and other receivables	*f,h,n*	334.8	(18.9)	315.9
Amounts owed by fellow subsidiary undertakings		1,250.8	-	1,250.8
Cash and cash equivalents	*n*	43.6	(11.7)	31.9
		1,634.5	(30.6)	1,603.9
Total assets		4,240.1	(1,251.4)	2,988.7
Current liabilities				
Trade and other payables	*d,m*	(574.0)	(4.2)	(578.2)
Amounts owed to parent undertaking		(1,895.6)	-	(1,895.6)
Current tax payable		(7.0)	-	(7.0)
Provisions	*i*	-	(23.1)	(23.1)
		(2,476.6)	(27.3)	(2,503.9)
Non-current liabilities				
Finance lease obligations		(13.6)	-	(13.6)
Other liabilities	*d*	(1.3)	1.3	-
Defined benefit pension scheme liabilities	*j*	(135.9)	(29.8)	(165.7)
Provisions	*i*	(49.8)	23.1	(26.7)
Insurance technical provisions		(3.2)	-	(3.2)
		(203.8)	(5.4)	(209.2)
Total liabilities		(2,680.4)	(32.7)	(2,713.1)
Net assets		1,559.7	(1,284.1)	275.6
Equity				
Share capital		20.0	-	20.0
Revaluation reserve		1,104.7	(1,104.7)	-
Foreign currency translation reserve	*k*	(0.6)	(0.4)	(1.0)
Retained earnings	*b,c,d,g,k,m*	435.6	(179.0)	256.6
Total equity attributable to equity holders of the parent		1,559.7	(1,284.1)	275.6

Notes to the consolidated financial statements (continued)

37 Explanation of transition to Adopted IFRS *(continued)*

Reconciliation of profit for the year ended 31 January 2013

in millions of pounds	Note	UK GAAP	Effect of transition to Adopted IFRS	Adopted IFRS
Revenue		968.0	-	968.0
Cost of sales		(349.4)	-	(349.4)
Gross profit		618.6	-	618.6
Other operating income		1.4	-	1.4
Administrative & marketing expenses	c,d	(466.8)	166.7	(300.1)
Operating profit before share of profits of associates		153.2	166.7	319.9
Share of profits in associates, net of tax		0.7	-	0.7
Operating profit		153.9	16.7	320.6
Profits on disposal of joint venture		3.1	-	3.1
Finance costs	j,l	(5.3)	(6.0)	(11.3)
Finance income	l	-	0.3	0.3
Profit before tax		151.7	161.0	312.7
Tax expense	g,j	(78.2)	1.4	(76.8)
Profit for the year		73.5	162.4	235.9

Explanation of reconciling items between UK GAAP and IFRS

a) On transition to IFRS, the Group has taken full advantage of the exemption from IFRS 3 'Business Combinations' provided in IFRS 1 'First-time adoption of International Financial Reporting Standards'. Any unamortised goodwill at 1 February 2011 has been carried forward at cost, subject to impairment testing on transition to IFRS. In addition, the Group has taken advantage of the transition to IFRS to align the carrying value of goodwill with the accounts of the parent undertaking, AA Limited. In conjunction with the alignment of goodwill the originally reported revaluation reserve of £1,104.7m has been reversed. Goodwill originally reported under UK GAAP of £2,802.0m has been aligned to AA Limited at £1,280.4m and then adjusted to recognise contingent consideration at fair value on transition to IFRS of £1.5m and impairment on transition to IFRS of £85.2m as described below. As part of this adjustment, the Group also aligned the carrying values of certain properties to those of AA Limited which resulted in a reduction in property, plant and equipment as at 31 January 2011 and 31 January 2013 of £4.1m.

b) Under IFRS, goodwill is allocated to segments and certain business units. At the date of transition to IFRS, the Group performed an impairment test on goodwill and wrote off goodwill totalling £85.2m related to the Personal Finance joint venture (£72.5m), the glass business unit (£5.8m) and the travel insurance business unit (£6.9m).

c) Under UK GAAP, goodwill arising on business combinations (including the acquisition of the AA Group in 2004) was amortised. Goodwill has been increased by £185.9m at 31 January 2013 to eliminate this amortisation. In the income statement for the year ended 31 January 2013, amortisation of intangible assets decreased by £168.5m.

d) Business combinations after the transition date have been restated in accordance with IFRS 3. Goodwill has reduced by £3.4m at 31 January 2013, with a decrease in other liabilities of £0.4m at 31 January 2013. In the income statement for the year ended 31 January 2013, acquisition earn-out costs increased by £1.8m.

e) In accordance with IFRS, capitalised software costs have been reclassified from plant and equipment to intangible assets. The impact of the reclassification on transition was £28.4m (31 January 2013: £39.5m). The software depreciation charge of £9.8m under UK GAAP for the year ended 31 January 2013 has been reclassified as amortisation with no net effect on the Group's income statement.

Notes to the consolidated financial statements (continued)

37 Explanation of transition to Adopted IFRS *(continued)*

f) Under UK GAAP, a deferred tax asset (excluding that relating to the pension scheme liability) is shown within current assets but is separately disclosed as an asset greater than one year. Under IFRS, this asset is shown as a non-current asset. At 1 February 2011, £29.7m has been reclassified (January 2013: £22.0m).

g) The adoption of IAS 12 has decreased the deferred tax asset by £4.6m (January 2013: decreased by £3.8m). Impact on the income statement in 2013 is a reduction in the tax charge of £0.3m.

h) Under UK GAAP, other fixed asset investments included £1.0m (January 2013: £1.0m) that have been reclassified as current other receivables under IFRS.

i) In accordance with IFRS, provisions have been split between current and non-current on the face of the balance sheet. At 1 February 2011, £9.8m (31 January 2013: £23.1m) has been reclassified as a current provision.

j) Accounting for pensions in accordance with IAS 19 'Employee Benefits' is different from FRS 17 'Retirement benefits'. The main differences are:

- Under FRS 17, pension balances are presented net of deferred tax on the face of the balance sheet. Under IFRS these balances are shown separately, as a liability for the pension scheme and as an asset for deferred tax. As a result, the Group's retirement benefit obligation at 1 February 2011 increased by £21.5m (31 January 2013: £29.8m) and the non-current deferred tax asset increased by £21.5m (31 January 2013: £29.8m).
- In the income statement for the year ended 31 January 2013, finance costs increased by £5.7m and remeasurement gains / (losses) on defined benefit plans in the statement of other comprehensive income decreased by £5.7m. The associated deferred tax of £1.1m has been reclassified from the income statement and the statement of other comprehensive income.

k) The Group has taken advantage of the relief available in IFRS 1 to deem cumulative translation differences for all foreign operations to be zero at the date of transition to Adopted IFRS.

l) Under UK GAAP finance income and finance costs are presented net in the profit and loss accounts. For the year ended 31 January 2013 £0.3m has been reclassified from finance costs to finance income.

m) Other adjustments on transition to IFRS include £3.3m relating to adjustments to accruals and deferred income.

n) Balances included in cash under UK GAAP have been reclassified under IFRS as non-current fixed term investments (1 February 2011: £24.7m; 31 January 2013: £9.6m) and current short term deposits (1 February 2011: £6.3m; 31 January 2013: £2.1m).

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

We have audited the parent company financial statements of AA Intermediate Co Limited for the year ended 31 January 2014 which comprise the company balance sheet and the related notes 1 to 6. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 16, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the parent company financial statements:
- give a true and fair view of the state of the company's affairs as at 31 January 2014;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the group financial statements of AA Intermediate Co Limited for the year ended 31 January 2014.

Kevin Senior (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London 27 May 2014

Company balance sheet as at 31 January 2014

in millions of pounds	**Notes**	**2014**	2013
Fixed assets			
Investment in subsidiaries	**2**	**1,661.1**	1,661.1
Current assets			
Debtors	**3**	**128.6**	128.6
Creditors falling due within one year	**4**	**(1,769.6)**	(1,771.3)
Net current liabilities		**(1,641.0)**	(1,642.7)
Net assets		**20.1**	18.4
Capital and reserves			
Called up share capital	**5**	**20.0**	20.0
Profit and loss account	**6**	**0.1**	(1.6)
Total capital employed		**20.1**	18.4

Signed for and on behalf of the Board by

A K Boland

Chief Financial Officer

27 May 2014

The notes on pages 76 to 78 form part of these consolidated financial statements.

Notes to the Company financial statements

1 Company accounting policies

a) Accounting convention

The Company financial statements are prepared under the historical cost convention and in accordance with applicable UK generally accepted accounting standards as defined in the Companies Act 2006 s.464 and have been applied consistently across all periods.

Under section s408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

b) Foreign currencies

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

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

c) Investments

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

Investments in Group undertakings are stated at the lower of cost and net realisable value.

The carrying amounts of the Company's assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its income-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account unless it arises on a previously revalued fixed asset.

The recoverable amount of fixed assets is the greater of their net realisable value and value in use. In assessing value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the rate of return expected on an investment of equal risk. For an asset that does not generate largely independent income streams, the recoverable amount is determined for the income-generating unit to which the asset belongs.

d) Borrowings

All borrowings are initially stated at the fair value of the consideration received after deduction of issue costs. Issue costs are charged to the profit and loss account over the term of the borrowings and represent a constant proportion of the balance of capital repayments outstanding.

Notes to the Company financial statements *(continued)*

2 Investments

in millions of pounds	**2014**	2013
Investment in subsidiary undertaking at cost		
At 1 February and 31 January	**1,661.1**	1,661.1

3 Debtors

in millions of pounds	**2014**	2013
Amounts owed by subsidiary undertakings	**128.6**	128.6

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

4 Creditors falling due within one year

in millions of pounds	**2014**	2013
Amounts owed to parent undertaking	**1,756.2**	1,757.9
Amounts owed to subsidiary undertakings	**13.4**	13.4
	1,769.6	1,771.3

The amounts owed to parent and subsidiary undertakings are unsecured, have no repayment terms and bear no interest.

5 Share capital

in millions of pounds	**2014**	2013
Allotted, called up and fully paid		
20,000,002 ordinary shares of £1 each	**20.0**	20.0

The voting rights of the holders of all ordinary shares are the same and all ordinary shares rank pari passu on a winding up.

Notes to the Company financial statements *(continued)*

6 Reconciliation of movements in shareholders' funds

in millions of pounds	**2014**	2013
Profit for the financial year	**1,227.2**	**-**
Capital contribution	**1.6**	-
Dividends paid	**(1,227.1)**	-
Net change in shareholders' funds	**1.7**	**-**
Shareholders' funds at 1 February	**18.4**	18.4
Shareholders' funds at 31 January	**20.1**	18.4

Profit for the financial year comprises dividends received of £1,227.2m (2013: £nil).

The capital contribution relates to a realised gain following the forgiveness of amounts due to a parent undertaking.