



STUART HOWARD
CHIEF FINANCIAL OFFICER

CHIEF FINANCIAL OFFICER'S REPORT

Acromas Holdings acquired the businesses of the AA and Saga on 18 September 2007. The comparative trading results presented in this set of financial statements reflect the period from that date to 31 January 2008. I have therefore included an unaudited pro forma profit and loss account on page 49 showing what the results of the Group would have been had the acquisitions occurred on 1 February 2007. The trading results I describe below are all on this basis.

The Group turnover is £1.6 billion, which is 4.4% more than that achieved in the previous year. The AA contributed £861.2 million, of which £604.3 million was from its roadside assistance business and £206.1 million was from insurance. Saga contributed £750.6 million of which £471.3 million was from its insurance business and £265.5 million was from its travel business.

Group gross margin (excluding exceptional items) was 54.4% of turnover. Of the £876.8 million gross profit, only 47.1% was spent on administrative and marketing expenses (2008: 52.8%) and the Group generated an operating profit of £496.5 million before goodwill and exceptional items.

The Group's key financial and other performance indicators (excluding goodwill and exceptional items) during the year were as follows:

	2009	2008	Change
	£'m	£'m	%
Turnover	1,611.8	1,544.5	4.4
Total Expenses	413.2	451.4	(8.4)
Operating Profit	496.5	440.8	12.7
EBITDA	547.2	484.5	13.0
Interest paid	339.1	384.2	(11.7)
Headcount	12,170	11,699	4.0

CAPITAL STRUCTURE

Saga and the AA were acquired for a total cost of £6.3 billion, funded from £4.8 billion of bank borrowings, £1.5 billion of shareholder loans and £1 million of share capital. The main shareholders (on a fully diluted basis) in Acromas Holdings are as follows.

	%
Funds advised by Charterhouse Capital Partners	35.9
Employees	20.1
Funds advised by CVC Capital Partners	19.9
Funds advised by Permira Advisers	19.9
Other Co-Investors	4.2

Charterhouse, CVC and Permira are all international firms advising private equity funds raised from a diverse group of investors in public and corporate pension funds, insurance companies, charities and foundations, banks and government entities.

The bank borrowings consist of senior and mezzanine debt, both of which incur interest at a variable rate based on LIBOR. Neither have any capital repayments due before 2015.

The Group also has access to a revolving credit facility (or overdraft) of £270 million, of which approximately £230 million is used to provide guarantees required by regulators of the Group's businesses or other counterparties. The balance is undrawn and the Group has not had a need to draw cash from this overdraft facility.

Overall cash interest incurred on these facilities has fallen from the prior year pro forma amount of £384.2 million to £339.1 million this year, reflecting the reduction in LIBOR seen in the last quarter. This compares to EBITDA before exceptional items of £547.2 million for the year to 31 January 2009.

The Group has agreed highly favourable terms on its bank facilities, having the benefit of being put in place in a 'covenant light' environment. The Group currently has substantial headroom within its covenants and does not expect this to change for the foreseeable future.

The shareholder debt ranks behind all other debts of the Group and is not due to be repaid until 2037. Details of the amounts outstanding at the balance sheet date are included in note 21 to the accounts.

At the balance sheet date, the Group had cash and short term bank deposits of £518.8 million on its balance sheet. Of this amount, £379.5 million is cash set aside to meet the Group's regulatory capital requirements in its insurance and travel subsidiaries. The remaining £139.3 million is available for general corporate purposes, including servicing the debt facility.



DIRECTORS' REPORT

DIRECTORS:

J A Goodsell (Chief Executive)

J S E Arnell (Charterhouse Capital Partners)

R P Hooper (CVC Capital Partners)

S M Howard (Chief Financial Officer)

R R Lucas (CVC Capital Partners)

P S Muelder (Permira Advisers)

M Offord (Charterhouse Capital Partners)

C Sherwood (Permira Advisers)

Secretary: J Davies

Registered Office: Enbrook Park, Folkestone, Kent CT20 3SE

The Directors submit their report together with the audited financial statements for the year ended 31 January 2009.

PRINCIPAL ACTIVITY AND REVIEW OF BUSINESS DEVELOPMENTS

The Group's principal activity is the sale of branded goods and services through its AA and Saga subsidiaries. The Group's main products are roadside assistance, motor insurance, home insurance, PMI & travel insurance, books, magazines, and package and cruise holidays.

Acromas acquired the AA and Saga businesses on 18 September 2007. An unaudited pro forma comparing the current year's trading against the full year results for the prior period for the combined Group has been included on page 49 and is discussed in the CFO's report.

Group turnover excluding exceptional items for the year to 31 January 2009 was £1,611.8 million (2008 – £569.7 million). The AA contributed £861.2 million (2008 – £305.6 million) of which £604.3 million (2008 – £210.0 million) was from its roadside assistance business and £206.1 million (2008 – £77.7 million) was from insurance. Saga contributed £750.6 million (2008 – £264.1 million) of which £471.3 million (2008 – £154.5 million) was from its insurance business and £265.5 million (2008 – £104.6 million) was from its travel business.

The gross profit achieved excluding exceptional items over this year was £876.8 million (2008 – £280.3 million), giving an overall gross margin of 54.4% (2008 – 49.2%).

The Group administrative costs excluding goodwill amortisation and exceptional items were £413.2 million (2008 – £161.7 million), meaning that 47.1% (2008 – 57.7%) of the gross profit for the year was absorbed by overheads. Group operating profit excluding goodwill amortisation and exceptional items was £496.5 million (2008 – £141.0 million), which is 56.7% (2008 – 50.3%) of gross profit.

The total interest charge for the year was £709.2 million (2008 – £270.1 million), of which £346.1 million (2008 – £150.6 million) was either paid in cash or is due to be paid in cash shortly after the year end. The balance of the interest charge was added on to the outstanding balance of the debts due.

After financing costs, exceptional items and goodwill amortisation the Group made a loss of £506.7 million (2008 – £255.7 million). A retained deficit of £516.4 million (2008 – £264.7 million) has been taken to reserves. No dividends have been paid during the year (2008 – £nil).

The two main Group pension schemes ended the year with a surplus as disclosed in note 10 to the accounts even after strengthening the scheme mortality assumptions in line with recent experience. The small deficit on the AA Ireland Pension Scheme is being addressed with additional employer contributions as agreed with the scheme trustees.

PRINCIPAL RISKS AND UNCERTAINTIES

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

The principal risks facing the Group have been grouped under the following six headings:

1. Legislative Risks

The Group trades within regulated sectors of the economy such as financial services, package holidays and cruising. It is therefore required to comply with all relevant regulations, which each regulated subsidiary ensures it does through dedicated compliance teams and appropriately designed processes and procedures.

2. Operational Risks

The Group faces a number of operational risks which are fundamental to its carrying on business including suppliers not being able to provide contracted services through force majeure, the risk associated with operating holidays, motoring and shipping businesses, and business disruption due to infrastructure failures. The Group has put in place and tested contingency plans to mitigate the impact of these risks crystallising and implemented processes and procedures to reduce the likelihood of occurrence.

3. Market Risk

The Group continues to operate in highly competitive markets with ongoing pressure on margins and market share. These risks are managed through promotion of the Group brands and continuing efforts to improve efficiency and reduce costs.

4. Brand Risk

The Group recognises that Saga and the AA are quality brands and sources of competitive advantage, and has in place policies and procedures to protect them at all times.

5. Credit Risk

The Group is required to comply with the provisions of its loan agreements. The Group has put in place corporate governance procedures and financial controls to ensure that these are complied with and has taken out interest rate swaps in line with its policy on managing interest rate risk.

6. Liquidity Risk

The Group pays a significant proportion of the cash it generates to its lenders in line with the provisions of its loan agreements. The Group produces rolling three month cash flow forecasts each week and monitors these closely to ensure that the Group is generating sufficient free cash flow to make these payments as they fall due.

SOCIAL AND COMMUNITY MATTERS

The Directors are committed to the Group being a good corporate citizen. Further details of the Group's charitable work are described in the Chief Executive's report.

During the year the Group made an overall contribution (including donations in kind and staff time) to various charitable and non-profit making organisations totalling £703,000 (2008 – £657,000). No political donations were made.

ENVIRONMENTAL MATTERS

The Group has continued to work hard to improve its environmental impact. The Group environmental approach includes both the reduction of activities with a negative impact on the environment (such as waste sent to landfill) and increasing activities with a positive impact on the environment. Over the past year the Group has planted almost 400 trees in addition to the 600 planted last year on the sites occupied by its offices.

This year the AA introduced a further 37 motorbikes and electric scooters into London, Manchester, Glasgow and Birmingham taking the overall numbers to 50 (2008 – 13). The bike patrols target 'quick fix' breakdowns such as flat batteries, wheel changes and simple electrical faults. These problems cause over a third of the 3.6 million breakdowns attended by the AA each year, often causing lengthy traffic jams with corresponding high CO₂ emissions. The bikes – which include environmentally friendly zero-emission electric scooters – are estimated to cut up to 25% from peak time breakdown wait times.

POLICY ON USE OF FINANCIAL INSTRUMENTS

The Group enters into derivative transactions (commodity swaps, interest rate swaps and forward foreign currency contracts). The Board reviews and agrees policies for managing these risks and they are summarised below.

The Group has transactional currency exposures that arise from purchases in currencies other than the Group's functional currency. The Group uses forward currency contracts to eliminate the currency exposures on all material transactions. The forward contracts to purchase foreign currency are transacted to coincide with identified requirements so that at all times the Group has no material exposures to foreign currency risk.

The Group is exposed to the market price of oil relating to the consumption of fuel on the Group's cruise ships. The Group uses fuel swap agreements, and occasionally caps, to mitigate this exposure. The agreements hedge all the anticipated fuel requirements of the Group's ships and are transacted to coincide with committed itineraries.

Interest rate swaps are used by the Group to fix interest on a proportion of the Group's bank borrowings to reduce the interest rate risk to an acceptable level.

EMPLOYEES

During the year the Group companies have maintained the practice of keeping employees informed about current activities and progress by various methods including regular staff newsletters. Employee participation and involvement is encouraged.

All UK and Ireland employees employed at the time of the acquisition of Saga and the AA were given the opportunity to share in the success of the Group by acquiring Company shares through an employee share scheme.

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are required by law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company, of the Group and of the profit or loss of the Group for the year.

The Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The Directors confirm that the accounting policies are appropriate to the Group's business and have been applied consistently. In preparing the financial statements for the year, the Directors have made reasonable and prudent judgements, have ensured that applicable accounting standards have been followed and confirm that it is appropriate to prepare the financial statements on a going concern basis.

The Directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of 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.

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 its report. So far as each Director approving this report is aware, and based on the above steps, there is no relevant audit information of which the auditor is unaware.

AUDITORS

In accordance with section 487(2) of the Companies Act 2006, the Auditors Ernst & Young LLP are deemed re-appointed.

By order of the Board



S M Howard
Director
9 July 2009