

AA Intermediate Co Ltd - Investor Report

This is the Investor Report for the year ended 31 January 2015 which we are required to deliver pursuant to paragraph 6 of Part A of Schedule 3 of the Common Terms Agreement.

General Overview

The business is characterised by stable and predictable revenue streams, strong operating margins and high cash conversion.

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

- We attended 3.5 million breakdowns in the year ended 31 January 2015, and 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 commercial brand (excluding charities and the armed forces) by Y&R's Brand Asset Valuator survey in 2014.
- EBITDA increased by 1.8% to £430.7 million in the twelve months ended 31 January 2015 (2014: £422.9 million).
- EBITDA margins improved in the twelve months ended 31 January 2015 to 43.9% (2014: 43.4%).
- Cash flow from operating activities before tax and exceptional items of £430.7 million (cash conversion: 100.0%) for the year ended 31 January 2015 and £434.2 million (cash conversion 102.7%) for the year ended 31 January 2014.
- Total Net Debt to EBITDA of 6.6 x and Total Class A Net Debt to EBITDA at 4.9 x as at 31 January 2015. This excludes the PIK notes issued outside the ring fence.

Further information is available at www.theAA.com/investor-relations and within the AA Plc Annual Report and Financial Statements.

Regulatory and business update

On 26 June 2014, AA Intermediate Co Ltd's ultimate parent undertaking, AA plc, listed on the London Stock Exchange. AA Plc became premium listed on 28 January 2015 and entered the FTSE 250 on 23 March 2015.

As announced in the March 2015 Budget, new anti-avoidance legislation will be introduced to reduce, in certain circumstances, the ability of companies to utilise brought forward losses after 18 March 2015. Until final legislation has been enacted it is uncertain whether the group's losses, and the

£22m of deferred tax provided on them, will be affected by this change but we will continue to review the value of the asset as information becomes available going forward.

There have been no other significant regulatory and business developments (including any highly publicised incidents) other than as described in the Financial Statements.

The following changes to office holders occurred during the year:

Bob Mackenzie – Director and Executive Chairman of AA Plc, appointed 15 July 2014

Martin Clarke – Director and Chief Financial Officer of AA plc, appointed 15 July 2014

Nick Hewitt – Director and Executive Director of AA Plc, appointed 15 July 2014

Rob Scott – Director, appointed 17 September 2014

Chris Jansen resigned as a Director 31 August 2014

Andy Boland resigned as a Director 19 December 2014

Capital Expenditure

There has been no Capital Expenditure (excluding Maintenance Capital Expenditure) in an amount exceeding £5,000,000 (Indexed) during the period.

Financing

Subsequent to the year end, the Group has raised £735m of new Class B2 loan notes with an interest rate of 5.5% and an expected maturity of 31 July 2022. The proceeds of this issuance will be used to redeem the existing Class B notes on 31 July 2015. Additionally, £209m of the Senior Term Facility was repaid on 30 April 2015 using existing cash resources.

Acquisitions or Disposals

There have been no material acquisitions or disposals, in each case in an amount exceeding £5,000,000 (Indexed) during the year ended 31 January 2015.

Current Hedge Position

The Holdco Group has fully hedged its interest rate exposure in relation to its Authorised Credit Facilities.

Ratios

We confirm that in respect of this investor report dated 29 May 2015, by reference to the most recent Financial Statements that we are obliged to deliver to you in accordance with paragraph 1 (*Financial Statements*) of Part A (*Information Covenants*) of Schedule 3 (*Holdco Group Covenants*) of the Common Terms Agreement:

- the Class A FCF DSCR as at 31 January 2015 is more than 1.35;

	Year to January 2015 £m
Operating profit before tax	113.6
Add back:	
Debt interest payable	179.4
Interest payable under finance leases	4.1
Amortisation of debt issue costs	26.3
Transfer from cash flow hedge reserve	7.0
Finance costs in respect of pensions	10.7
Unwinding of discount rate on provisions	0.1
Exceptional items	33.5
Depreciation and amortisation	48.3
Difference between the pension service cost and employer cash contributions	6.6
Share-based payments	1.6
Less interest receivable	(0.9)
Class A Maintenance EBITDA	<u>430.3</u>
Less	
Cash tax paid	(8.8)
Change in working capital	10.6
Minimum capital maintenance spend	(25.0)
Payments for onerous lease	(3.6)
Class A Free cash flow	<u><u>403.5</u></u>
Class A total debt service charge	117.1
Class A FCF DSCR	3.4

- the amount of Additional Financial Indebtedness raised since the date of the immediately preceding Investor report and included for the Test Period ending 31 January 2015 was £250 million in May 2014, from the issuance of Class A4 Notes, the proceeds of which were used in conjunction with the utilisation of the new £663 million Senior Term Facility to repay in full the Initial Senior Term Facility
- the amount of Permitted Investor Payments made since the date of the immediately preceding Investor report was £nil.
- We confirm that the Class A FCF DSCR Ratio has been calculated in respect of the Test Dates for which it is required to be calculated under the Common Terms Agreement.

We confirm that:

- no CTA Default or Trigger Event has occurred and is continuing.
 - the Holdco Group is in compliance with the Hedging Policy.
 - the amount of Excess Cashflow for the preceding Financial Year is £114.8m
 - the amount of Retained Excess Cashflow for the preceding Financial Year is £225.0m
 - we are in compliance with the Obligor Coverage Test.
 - below is a list of the Material Companies:
 - AA Corporation Limited
 - Automobile Association Developments Limited
 - Automobile Association Insurance Services Limited
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- the statements set out in this Investor Report are accurate in all material respects.

Yours faithfully,

Rob Scott

Director

For and on behalf of
Automobile Association Developments Limited as Holdco Group Agent

29 May 2015