INVESTOR REPORT

This is the Investor Report for the six months ending 31 July 2017 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 focused on delivering the highest possible standards of customer service, quality products, stable and predictable profits, strong operating margins and high cash conversion. The Holdco Group continued to demonstrate all of these qualities in the first half of the financial year:

- We attended 1.8 million breakdowns in the six months to 31 July 2017 and grew new Roadside members by 13% in the period whilst maintaining our retention rate at 82%.
- Trading EBITDA was flat at £194 million in the six months ended 31 July 2017 (2016: £194 million).
- Trading EBITDA margins were flat at 42% in the six months ended 31 July 2017 (2016: 42%).
- Net cash inflows from operating activities before tax and exceptional items of £196 million (2016: £203 million) in the six months ended 31 July 2017.
- Net debt to EBITDA of 6.8x and net senior secured debt to EBITDA at 5.2x as at 31 July 2017, compared to 31 July 2016 ratios of 6.8x and 4.9x respectively.

Further information is available at www.theAA.com/investor-relations.

Regulatory and business update

The Group operates two funded defined benefit pension schemes: the AA UK Pension Scheme (AAUK) and the AA Ireland Pension Scheme (AAI). The AAUK scheme has final salary sections and a Career Average Revalued Earnings (CARE) section. The CARE section provides for benefits to accrue on an average salary basis. On 1 July 2017 accrual ceased under the final salary sections and members were moved to the CARE section for future accrual of benefits. This preserved defined benefits for current scheme members. In addition, pension indexation in the CARE section will now be based on CPI inflation, rather than RPI inflation, from April 2018 onwards. The AAI scheme is closed to new entrants and future accrual of benefits.

The Group has recognised a one-off past service credit of £34m as a result of the benefit changes described above.

In June 2017 the Group completed the AAUK scheme triennial valuation as at 31 March 2016 agreeing a deficit of £366m with the pension trustees. The Group has committed to paying an additional £8m per annum from July 2017 to March 2019, £11m per annum from April 2019 to March 2021 uplifted in line with RPI from 1 April 2020 and £13m per annum from April 2021 to June 2026 uplifted in line with RPI from 1 April 2022 annually. Following the November 2013 triennial valuation the Group implemented an asset backed funding scheme which remains in place. The asset backed funding scheme provides a long-term deficit reduction plan where the Group makes an annual deficit reduction contribution of £13m increasing annually with inflation, until November 2038, secured on the Group's brands.

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

There have been no other significant announcements/publications by the government relating to Permitted Business.

Capital Expenditure

In the Period to 31 July 2017, IT transformation capex spend was £13 million.

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

Financing

During the period, the Group issued £250m of Class A6 notes at an interest rate of 2.75%. From the proceeds of the A6 notes, the Group repaid the remaining £175m of A1 notes incurring an interest penalty of £7m and the remaining £55m of A4 notes incurring an interest penalty of £3m.

Following the sale of the Irish business during the prior year, we held back £24m from the net proceeds in ring-fenced available cash to be used for potential future acquisitions or repayment of either Class A notes or the Senior Term Facility. On 13 July 2017 the £24m was used as part of a repayment of £98m of the Senior Term Facility. The balance of the Senior Term Facility was renegotiated and its maturity extended to 31 July 2021.

On the 13 July 2017 the working capital facility was reduced from £150m to £75m.

Acquisitions or Disposals

There have been no material acquisitions or disposals, in each case in an amount exceeding £5,000,000 (Indexed) since the Closing Date.

Current Hedging Position

The Holdco Group has fully hedged its interest rate exposure in relation to its Authorised Credit Facilities. As a result of the reduction of the Senior Term Facility (as described above) the Borrower has entered into an offsetting swap to reduce the overall hedging by £98 million to maintain this level of hedging.

Ratios

We confirm that in respect of this investor report dated 9 October 2017, 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 in respect of the relevant Test Period is equal to or more than 1.35:

Class A compliance certificate presentation

	Year to July 2017 £m
Operating profit before tax	220
Add back:	
Debt interest payable	141
Discontinued operations - AA Ireland	(7)
Penalty interest payable	12
Interest payable under finance leases	9
Amortisation of debt issue costs	13
Transfer from cash flow hedge reserve	11
Finance costs in respect of pensions	10
Exceptional items	(17)
Depreciation and amortisation	70
Profit on disposal of Irish business segment	(77)
Difference between the pension service cost and employer cash contributions	11
Share-based payments	11
Less interest receivable	(1)
Class A Maintenance EBITDA	406
Less	
Cash tax paid	(26)
Change in working capital	(30)
Dividend received from joint ventures and associates	1
Minimum capital maintenance spend	(25)
Payments for onerous lease	(1)
Class A Free cash flow	325
Class A total debt service charge	104
Class A FCF DSCR	3.1

- the maximum amount of Permitted Investor Payments that may be made in the 90 days following the date of required delivery of this Compliance Certificate is £108 million, and the ratio of Total Class A Net Debt as at the most recent Test Date to EBITDA in respect of the Test Period ending on that Test date calculated pro forma for any payment of such maximum amount would be 5.5:1. The calculation is set out below:

Maximum permitted investor payment

		Year to July 2017 £m
Class A Debt:		
	Senior term facility	250
	Class A1 notes	-
	Class A2 notes	500
	Class A3 notes	500
	Class A4 notes	-
	Class A5 notes	700
	Class A6 notes	250
	Working Capital Facility (utilised as guarantee)	5
Less:	Cash and Cash Equivalent Investments	(80)
Total Class A Net Debt		2,125
	Permitted Investor payment	108
Max Class A Net Debt		2,233
Class A Maintenance EBITDA		406
Ratio of Class A Net DEBT to EBITDA		5.50

We confirm that:

- the Initial Public Offering did not meet the definition of a Qualified Public Offering.
- no CTA Default or Trigger Event has occurred and is continuing.
- the Holdco Group is in compliance with the Hedging Policy.
- the amount of Retained Excess Cashflow as at the date of this Compliance Certificate is £170 million.
- we are in compliance with the Obligor Coverage Test.
- below is a list of material companies:
  - AA Corporation Limited
  - Automobile Association Developments Limited
  - Automobile Association Insurance Services limited

- the statements set out in this Investor Report are accurate in all material respects.

Yours faithfully,

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Director

For and on behalf of

Automobile Association Developments Limited as Holdco Group Agent