AA Intermediate Co Ltd - Investor Report

This is the Investor Report for the year ended 31 January 2016 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 3.4 million breakdowns in the year ended 31 January 2016, 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?'.
- EBITDA decreased by 3% to £417 million in the twelve months ended 31 January 2016 (2015: £431 million).
- EBITDA margins decreased in the twelve months ended 31 January 2016 to 43% (2015: 44%).
- Cash flow from operating activities before tax and exceptional items of £412 million (cash conversion: 99%) for the year ended 31 January 2016 and £417 million (cash conversion 97%) for the year ended 31 January 2015. (This figure has been restated due to a change in accounting policy).
- Total Net Debt to EBITDA of 6.9 x and Total Class A Net Debt to EBITDA at 5.0 x as at 31 January 2016.

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

Regulatory and business update

The Government has confirmed that, from 1 April 2017, it will cap the amount of UK tax relief for interest to 30% of taxable earnings before interest, depreciation and amortisation (EBITDA) calculated across the UK group. Alternatively, groups may elect for the interest restriction to be based on the net interest to EBITDA ratio for the worldwide group. The AA is expected to be affected by these restrictions and it is likely that we will apply the group rule. As the AA is predominantly UK based, the impact of these rules is not expected to be significant however, we await the detailed guidance that is due to be published in July 2016 to assess the possible impact of these interest restrictions.

The following changes to office holders occurred during the year:

Mark Millar – Director, appointed 16 October 2015

Gillian Pritchard – Director, appointed 30 April 2016

Nick Hewitt – Director and Executive Director of AA Plc, resigned 31 July 2015

Rob Scott – Director, resigned 30 April 2016

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

Capital Expenditure

Capital Expenditure (excluding Maintenance Capital Expenditure) in the period to 31 January 2016 included £54 million relating to the IT transformation project.

Financing

During the year, the Group 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 were used to redeem the old Class B1 notes on 31 July 2015. Additionally, £209m of the Senior Term Facility was repaid at the end of April 2015 using existing cash resources.

Acquisitions or Disposals

During the year ended 31 January 2016, the Group disposed of Autowindshields (UK) Ltd incurring a loss of £5 million.

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 June 2016, 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 2016 is more than 1.35; we set out the calculation below:

	Year to January 2016 £m
Operating profit before tax	30
Add back:	
Debt interest payable	175
Penalty interest payable	58
Interest payable under finance leases	7
Amortisation of debt issue costs	20
Transfer from cash flow hedge reserve	8
Finance costs in respect of pensions	12
Exceptional items	36
Depreciation and amortisation	54
Difference between the pension service cost and employer cash contributions	13
Share-based payments	5
Less interest receivable	(1)
Class A Maintenance EBITDA	417
Less	
Cash tax paid	(6)
Change in working capital	9
Minimum capital maintenance spend	(25)
Payments for onerous lease	(4)
Class A Free cash flow	391
Class A total debt service charge	108
Class A FCF DSCR	3.6

- 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 2016 was £Nil.

- 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 £201 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:

		Year to Jan 2016 £m
Class A Debt:		
	Senior term facility	454
	Class A1 notes	475
	Class A2 notes	500
	Class A3 notes	500
	Class A4 notes	250
	Working Capital Facility (utilised as guarantee)	7
Less:	Cash and Cash Equivalent Investments	(94)
Total Class A Net Debt		2,092
	Permitted Investor payment	201
Max Class A Net Debt		2,293
Class A Maintenance EBITDA		417
Ratio of Class A Net DEBT to EBITDA		5.50

- 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.
- a dividend payment of £60 million has been made out of Retained Excess Cashflow in the period since the date of the most recent Compliance Certificate;
- as excess cashflow for the year is an outflow of £53 million, £nil has been added to Retained Excess Cash flow.
- therefore the amount of Retained Excess Cashflow as at the date of this Compliance Certificate is £165 million; there have not been other payments made out of Retained Excess Cashflow
- we are in compliance with the Obligor Coverage Test.
- below is a list of the Material Companies as at 31 January 2016:
  - 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

29 June 2016