

## INVESTOR REPORT

This is the Investor Report for the six months ending 31 July 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 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 3.5 million breakdowns in the twelve months to 31 July 2015 and achieved the highest overall test score from Which? for a major breakdown provider for the tenth consecutive year.
- Trading EBITDA decreased by 5.5% to £200.2 million in the six months ended 31 July 2015 (2014: £211.8 million).
- Trading EBITDA margins decreased in the six months ended 31 July 2015 to 41.4% (2014: 43.1%).
- Net cash inflows from operating activities before tax and exceptional items of £200.2 million (2014: £214.5 million) with cash conversion: 110.3% (2014: 101.3%) in the six months ended 31 July 2015.
- Net debt to EBITDA of 6.8x and net senior secured debt to EBITDA at 4.9x as at 31 July 2015, compared to 2014 ratios of 6.7x and 5.1x respectively.

Further information is available at [www.theAA.com/investor-relations](http://www.theAA.com/investor-relations).

### Regulatory and business update

The refinancing, announced in the first quarter, delivered one of the three strategic objectives, namely to reduce Group borrowings and the associated interest costs. In refinancing, we retired the most expensive elements of the debt, the original Class B notes that we inherited from the previous private equity owners. The refinancing was concluded on 31 July 2015 when the original Class B notes were repaid. While it generated significant one-off finance charges, it reduced the cost of servicing our debt. Net debt at 31 July 2015 was £2,851.5m compared to £2,878.2m at the year end.

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 are additional factors which may have an impact upon the AA. Firstly, the Government recently and unexpectedly decided to increase Insurance Premium Tax by 58% from November 2015. The impact on the AA is that it is likely to create additional churn in both Insurance and Roadside Assistance. Secondly, EU legislation on holiday pay may increase operating costs.

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

### **Capital Expenditure**

There has been no Capital Expenditure (excluding Maintenance Capital Expenditure) in an amount exceeding £5,000,000 (Indexed) during the period. However, as the IT transformation continues, this threshold will be exceeded.

### **Financing**

As advised in the immediately preceding Investor report, 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 were used to redeem the existing Class B notes on 31 July 2015. Additionally, £209m of the Senior Term Facility was repaid 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) 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 £209 million to maintain this level of hedging.

### **Ratios**

We confirm that in respect of this investor report dated 21 September 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 in respect of the relevant Test Period is equal to or more than 1.35:

## Class A compliance certificate presentation

	Year to July 15 £m
Operating profit before tax	19.3
Add back:	
Debt interest payable	187.3
Penalty interest payable	58.6
Interest payable under finance leases	6.1
Amortisation of debt issue costs	21.1
Transfer from cash flow hedge reserve	14.6
Finance costs in respect of pensions	11.4
Unwinding of discount rate on provisions	0.1
Exceptional items	34.0
Depreciation and amortisation	52.3
Difference between the pension service cost and employer cash contributions	12.2
Share-based payments	3.1
Less interest receivable	(1.4)
<b>Class A Maintenance EBITDA</b>	<b>418.7</b>
Less	
Cash tax paid	(8.7)
Change in working capital	45.5
Minimum capital maintenance spend	(25.0)
Payments for onerous lease	(3.3)
<b>Class A Free cash flow</b>	<b>427.2</b>
Class A total debt service charge	111.4
Class A FCF DSCR	3.8

- 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 £231 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 15 £m
<b>Class A Debt:</b>	
Senior term facility	453.6
Class A1 notes	475.0
Class A2 notes	500.0
Class A3 notes	500.0
Class A4 notes	250.0
Working Capital Facility (where utilised or used as guarantee)	7.2
Less: Cash and Cash Equivalent Investments	<u>(114.3)</u>
<b>Total Class A Net Debt</b>	<b>2,071.5</b>
Permitted Investor payment	<u>231.0</u>
<b>Max Class A Net Debt</b>	<b><u>2,302.5</u></b>
Class A Maintenance EBITDA	418.7
<b>Ratio of Class A Net DEBT to EBITDA</b>	<b><u>5.5</u></b>

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 £225.0m.
- 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