

INVESTOR REPORT

This is the Investor Report for the six months ending 31 July 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 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 2016 and achieved the highest overall test score from Which? for a major breakdown provider for the eleventh consecutive year.
- Trading EBITDA was flat at £194 million in the six months ended 31 July 2016 (2015: £193 million).
- Trading EBITDA margins increased by 1% in the six months ended 31 July 2016 to 43% (2015: 42%).
- Net cash inflows from operating activities before tax and exceptional items of £203 million (2015: £224 million) in the six months ended 31 July 2016.
- Net debt to EBITDA of 6.8x and net senior secured debt to EBITDA at 4.9x as at 31 July 2016, compared to 31 July 2015 ratios of 6.8x and 4.9x respectively.

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

Regulatory and business update

On 11 August 2016, the Group completed the sale of AA Ireland. As part of the transaction, the AA Ireland pension scheme, which is closed to future accrual was transferred to AA Corporation Limited, a UK subsidiary of the Group and will continue to be the responsibility of the Group.

Proceeds, net of fees were £130m and allowed £106m of the Senior Term Facility to be repaid on 31 August 2016. Following the repayment of this debt, the overall weighted average interest rate rose slightly from 4.97% to 5.07%. Under the terms of our borrowings, we have held back £24m from the net proceeds in ring-fenced available cash to be used for potential future acquisitions. Any amounts not committed within 12 months from the AA Ireland completion date must be used to repay either Class A notes or the Senior Term Facility.

We are aware that there is some duplication of roadside assistance cover taken by a limited number of business-to-business customers who are also personal Members. While some may be unaware that they have more than one form of cover, others choose to maintain this in order to take advantage of the additional benefits personal Membership provides. Through the programme of data review for the new Customer Relationship Management systems, we identified a group of our banking partners' customers for whom the benefit of holding both forms of cover is not clear. We proposed a programme of remediation for them which has the support of the regulatory authority. We have provided £10m for our estimate of the costs.

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 2016, IT transformation capex spend was £20 million.

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

Financing

There has been no financing activity in the period. The proceeds from the AA Ireland disposal were used to make a partial repayment of the Senior Term Facility of £106m on 31 August 2016.

Acquisitions or Disposals

Other than the disposal of AA Ireland, 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 £106 million to maintain this level of hedging.

Ratios

We confirm that in respect of this investor report dated 30 September 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 in respect of the relevant Test Period is equal to or more than 1.35:

Class A compliance certificate presentation

	Year to July 2016 £m
Operating profit before tax	133
Add back:	
Debt interest payable	150
Discontinued operations - AA Ireland	7
Interest payable under finance leases	7
Amortisation of debt issue costs	4
Finance costs in respect of pensions	11
Exceptional items	32
Depreciation and amortisation	57
Difference between the pension service cost and employer cash contributions	9
Share-based payments	9
Class A Maintenance EBITDA	<u>419</u>
Less	
Cash tax paid	(13)
Change in working capital	(17)
Minimum capital maintenance spend	(25)
Payments for onerous lease	(4)
Class A Free cash flow	<u><u>360</u></u>
Class A total debt service charge	108
Class A FCF DSCR	3.3

- 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 £240 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:

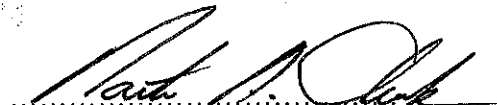
Maximum permitted investor payment

	Year to July 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	<u>(122)</u>
Total Class A Net Debt	<u>2,064</u>
Permitted Investor payment	<u>240</u>
Max Class A Net Debt	<u>2,304</u>
Class A Maintenance EBITDA	419
Ratio of Class A Net DEBT to EBITDA	<u>5.50</u>

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 £165 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,



Director

For and on behalf of

Automobile Association Developments Limited as Holdco Group Agent