

INVESTOR REPORT

This is the Investor Report for the six months ending 31 July 2018 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 1.9 million breakdowns in the six months to 31 July 2018 but as expected, Roadside members reduced by 2% in the period due to the reduction in our retention rate to 81%.
- Trading EBITDA was 17% lower at £161 million in the six months ended 31 July 2018 (2017: £194 million).
- Trading EBITDA margins were flat at 34% in the six months ended 31 July 2018 (2017: 42%).
- Net cash inflows from operating activities before tax and exceptional items of £158 million (2017: £196 million) in the six months ended 31 July 2018.
- Net debt to EBITDA of 7.7x and net senior secured debt to EBITDA at 6.0x as at 31 July 2018, compared to 31 July 2017 ratios of 6.8x and 5.2x 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. The final salary section is closed to new entrants and future accrual of benefits. The AAI scheme is closed to new entrants and future accrual of benefits.

Following the triennial valuation as at 31 March 2016 the Group agreed 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 2018, IT transformation capex spend was £15 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 £550m of Class A7 notes at an interest rate of 4.88%. From the proceeds of the A7 notes, the Group repaid £300m of A3 notes incurring an interest penalty of £15m and the Group's previous £250m Senior Term Facility. The Group also entered into a £200m forward starting Senior Term Facility due in July 2023 in order to secure committed funding to be able to redeem the £200m of Class A3 Notes left outstanding at their effective maturity on 31 July 2020.

In addition, the working capital facility was reduced from £75m to £60m.

Acquisitions or Disposals

On 1 March 2018, the Group completed the purchase of the entire share capital of Used Car Sites Limited (trading as AA Cars). A payment of £15m was made to the former owners and there is additional provisional deferred consideration of £11m.

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

Current Hedging Position

Subsequent to the refinancing noted above, the Holdco Group no longer has a drawn Senior Term Facility. Therefore, there is currently no interest rate exposure to be hedged in relation to its Authorised Credit Facilities. A forward starting swap has been entered into which is effective from July 2020 should the new Senior Term Facility be drawn.

Ratios

We confirm that in respect of this investor report dated 25 October 2018, 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 2018 £m
Operating profit before tax	94
Add back:	
Debt interest payable	127
Penalty interest payable	15
Interest payable under finance leases	4
Amortisation of debt issue costs	19
Transfer from cash flow hedge reserve	(16)
Finance costs in respect of pensions	8
Exceptional items	64
Depreciation and amortisation	69
Difference between the pension service cost and employer cash contributions	(28)
Share-based payments	5
Less interest receivable	(1)
Class A Maintenance EBITDA	<u>360</u>
Less	
Cash tax paid	(22)
Change in working capital	(3)
Minimum capital maintenance spend	(30)
Payments for onerous lease	(2)
Class A Free cash flow	<u><u>303</u></u>
Class A total debt service charge	93
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 £nil, this is because 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 is 6.0 which exceeds the threshold of 5.5 required before a Permitted Investor Payment can be made.

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 £103 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,



..... Paul P. Oub

Director

For and on behalf of

Automobile Association Developments Limited as Holdco Group Agent