

## Executive Chairman's statement

### A remarkable year

- > Strong operating and financial performance
- > Successful IPO on 26 June 2014 and strong shareholder register
- > Inclusion in Premium List on 28 January 2015
- > Strong Board with John Leach as Senior Independent Director
- > Martin Clarke appointed as CFO
- > New management team in place
- > Pay down of £175m of the PIK notes on 19 December 2014
- > Began the transformation as set out at the time of the IPO



It is a privilege to present our first Annual Report as a public company to you, our shareholders. This has been a **remarkable year** in the history of this **remarkable Company**.

**Bob Mackenzie**  
Executive Chairman

### Robust performance demonstrating the resilience of our business

Operationally, the AA continued to deliver excellent service to our millions of customers in the UK and Ireland. Our 3,000 patrols attended some 10,000 breakdowns a day; we sold more than two million insurance policies; and our 2,670 franchised driving instructors taught people to drive. These statistics demonstrate the robust nature and scale of our business.

The strength of the AA's brand, our market leading positions across our segments and the very high level of customer retention have driven the 1.0% growth in revenue and 1.7% increase in Trading EBITDA, our main measure of profit. We demonstrated once again the power of the AA's cash generation, converting 100% of our Trading EBITDA to cash.

This performance is a tribute to the resilience and strength of the AA's business and team – that has delivered strong results during a year of such significant change. The year's financial performance is explained in detail in the Financial Review from pages 20 to 23.

- + Read more about **Our performance** on [p24](#)
- + See our **Financial review** on [p20](#)
- + Read **John Leach's overview on Governance** on [p12](#)

#### IPO – 31 January 2015



**2015 highlights**

Revenue	Trading EBITDA	Basic EPS	Adjusted basic EPS	Cash conversion
<b>+1.0%</b>	<b>+1.7%</b>	<b>13.3p</b>	<b>23.3p</b>	<b>100%</b>
No. of Personal Members	No. of Business Customers	No. of insurance policies	No. of driving instructors	
<b>3.8m</b>	<b>9.6m</b>	<b>2.2m</b>	<b>2,670</b>	

**Transition to a public company**

The AA has undergone a great deal of change in ownership and, linked to that, change in management, since its formation in 1905, but nothing has been quite as significant as the change public ownership brings.

Through the IPO, Acromas, the private equity-backed company, sold its entire £1.173 billion stake in the AA to a diverse range of leading institutional investors. We embrace our new status as a public company and look forward to delivering significant value to our shareholders.

We have transformed the Board of the AA, and now have strong governance. John Leach, Senior Independent Director, provides an overview of our Governance on page 12.

John Leach, Margaret Young and Andrew Miller were appointed to the Board in the run up to the IPO and since then, we further strengthened it with the appointments of Andrew Blowers and Simon Breakwell in September. Each of the Board members offers the AA highly relevant, specific expertise and experience. Since the year end Margaret Young has resigned from the Board for personal reasons and we thank her, as one of the initial non-executives appointed at the time of the MBI and IPO, for her valuable contribution during a transformational period for the AA. We are delighted that Andrew Miller, who has recent financial and general line management experience, has agreed to take over as Chairman of the Audit Committee.

In November, we appointed Martin Clarke as CFO and, having worked closely with him through the inception of the MBI plan to the IPO, I am delighted to have his support in this role.

Our shares have performed well since the IPO with appreciation in total return to shareholders of 43% as at 31 January 2015. The details of our major shareholders can be found on page 68.

**+ Read about our Trading performance on [p26](#)**

**Our strategy****A strategy to build on and enhance the key strengths of the AA**

At the time of the IPO, we established a broad outline of our strategy for the AA that built on the AA's key strengths and was fundamental to the investment case. The strengths we intend to develop and enhance to generate value for our shareholders are set out below.

- > High recurring revenues and significant cash flow generation
- > The most highly regarded and trusted commercial brand in the UK
- > Clear leadership in the stable roadside assistance market
- > High levels of retention and loyalty among our Personal Members
- > Strong market positions across our range of other products and services
- > An experienced and dedicated workforce

With such strong foundations upon which to build, we are confident that we can leverage the AA's powerful brand to underpin our position as the pre-eminent motoring organisation in the UK. This is reflected in our strategic objectives which remain as set out at the IPO as overleaf.



# Executive Chairman’s statement continued

## Our strategic objectives

**1 Strengthen** the AA as the pre-eminent motoring services organisation in the UK

The AA is dedicated to serving the needs and interests of our members and customers and to continually improve our offering. We will develop our services while maintaining the outstanding experience delivered in our roadside assistance business, our core segment. Our aims are to strengthen Member benefits to improve loyalty; work more closely with business partners as car technologies develop; and further enhance the motoring propositions we offer within the UK’s consumer motoring market.

**2 Reduce** Group borrowings and the associated interest costs

We are highly cash generative with low maintenance capital expenditure requirements and a negligible working capital investment requirement. Continuing to improve our operating profit will help generate significant further free cash flow. This will facilitate a sustained reduction in leverage and associated interest costs as well as allowing us to pursue a progressive dividend policy. The refinancing represents significant progress in addressing this objective.

**3 Revolutionise** customer experience through investing in and embracing new technologies

We intend to invest in new technologies and improved customer systems to stimulate growth and enhance productivity across our business. As part of this we will invest in enhanced customer relationship management systems to allow our members to engage with us more easily. In addition, we will invest in our digital capabilities to help us provide tailored and distinctive products for them. We have a unique position as “Britain’s most trusted commercial brand” and a leading position with motor manufacturers. This will provide the foundation for our investment in advanced diagnostics, using remotely gathered data to deliver emergency support. We are currently exploring a number of potential partnership opportunities in this area. We will also develop new distinctive services as the mobile connected motoring market develops.

## The AA Executive Committee



From left to right: Mark Huggins, Brendan Nevin, Edmund King, Jim Kirkwood, Deb Hearn, Helen Hancock, Roger Williams, Richard Jeffcoat, Olly Kunc, Geraint Hayter, Kirsty Ross, Janet Connor, Mike Lloyd

We have commenced the involved process of designing and implementing programmes to deliver these objectives. These programmes are discussed in more detail in the strategy section of this report from pages 14 to 19.

**+ Read about our Strategic Priorities on p14 >**

### Management appointed to deliver the strategy

In recognising that execution will be the key determinant of the success in delivering the strategy, we have appointed an experienced and ambitious management team. Janet Connor, Managing Director Insurance Services; Olly Kunc, Managing Director Roadside Operations; Mike Lloyd, Group Commercial Director; and Kirsty Ross, Membership Services Director will manage those areas in which the transformation will be most significant. The risk of the IT and overall business transformation will be managed by Mark Huggins, Business Transformation Director, and Mehboob Neky, IT Transformation Director.

The Executive Committee also includes Helen Hancock, HR Director; Deb Hearn, Claims Manager; Richard Jeffcoat, Director Business Services, Manufacturer; Edmund King, President of the AA, who manages media and PR; Jim Kirkwood, Managing Director Driving Services; Mark Millar, Company Secretary and General Counsel; Brendan Nevin, Managing Director AA Ireland; and Roger Williams, Director Business Services, Fleet. In addition, Geraint Hayter, has recently been appointed as IT Director.

The Board has confidence that this is the right team to identify risks related to the programmes of change we are undertaking, mitigate them and ensure a smooth transition.

### Corporate responsibility

Responsibility is a core characteristic of the AA and is evident in the reliability of every roadside rescue or in the integrity of every sales call. These values and their embodiment in what we do drive customer loyalty and the recurring revenue which is critical to the success of our business.

Our people are the face of our brand and we engage and support them in that role, investing in talent and training. A key element of our transition is to support the frontline culture of service and expertise with a deeper focus on the customer throughout the AA.

Our activities in the AA Charitable Trust for Road Safety and the Environment are highly influential. Indeed, in recent years when there has been no advertising of our main product, the AA has been seen and heard through its campaigns on road safety and “eco-driving” (driving to reduce the environmental impact). Highly visible and successful campaigns such as Think Bikes, exhorting drivers to be more aware of cyclists and “Drive Confident”, providing driving lessons for lapsed or nervous drivers, illustrate how core responsibility is to our brand. It also reinforces our position as the pre-eminent motoring organisation and as the “voice of the motorist”. This “voice” is largely supported by the mandate of the AA’s Populus panel, allowing us to represent more than 150,000 motorists when lobbying on motoring issues.

As we transform the AA, we will integrate the strategic purpose of corporate responsibility into our overall strategy. More information on Corporate Responsibility can be found on pages 32 to 34.

### Refinancing

At the time of the IPO, one of our three strategic objectives was to reduce Group borrowings and associated interest costs. We intend to announce refinancing which will allow us to retire the most expensive elements of the debt that was inherited from the previous private equity owners of the AA.

We intend to raise £200 million of equity and issue new bonds of approximately £735 million which, combined with existing cash resources, will allow us to redeem the outstanding PIK notes, amounting to £175 million; redeem all of the existing Class B notes, amounting to £655 million; and prepay £209 million of the Senior Term Facility.

We expect the refinancing to reduce the financing costs of our debt by approximately £45 million per annum. This saving should allow us to delever more quickly in future years.

The new capital structure will improve our flexibility in supporting the development and growth of the business.

In addition, some of the restrictions that limit our scope to pay dividends will be removed and the Board intends to pay dividends with respect to the 2016 financial year.

### Outlook

The current year will be one of transition and we have developed our strategy and begun making the considerable investment and operational changes which we anticipated at the time of the IPO.

We are accelerating our investment in systems to start the programme of modernisation in the back office and systems. We expect to invest £128 million over the next three years of which £82 million is planned to be invested in the 2016 financial year. We expect this investment to deliver significant savings in IT capital spend in the medium term. Taking into account these savings, the overall incremental spend is expected to be £70 million over the next five years. However, in order to continue to deliver our first-rate services without disruption, we will continue using old technology and processes while implementing the new.

Restructuring to ensure we are more competitive, commercially agile and efficient will incur one-off costs estimated at approximately £45 million over the next three years. Taking into account considerable natural attrition and reduced property costs, we expect savings of approximately £40 million per year once this programme is complete.

In addition we will increase our investment in brand marketing by approximately £10 million per annum. We are confident that these short-term investments will drive future revenue, earnings and cash generation.

### Dividends

In view of the strength of the AA’s business model, characterised by strong cash generation, our confidence in our transformation plans and the impact of the proposed refinancing, we expect to recommend dividends in respect of the year ending 31 January 2016. The proposed refinancing is anticipated to save the AA approximately £45 million in financing costs and to provide sufficient headroom with regard to the more restrictive covenants that have to date limited our ability to pay dividends to shareholders. As a result, while further deleveraging is planned, it is the Board’s current intention to pay dividends of no less than £50 million with respect to the current year, ending 31 January 2016.

Going forward, we intend to adopt a progressive dividend policy.

## Executive Chairman's statement continued

### Thank you to the AA team

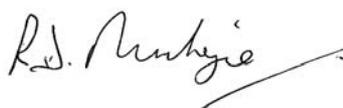
In order to achieve the significant change we need to deliver the best future for the AA, we are refreshing the entire organisation. We must all, at every level of the AA, embrace the new strategy and the benefits it will bring our customers, our people and our shareholders. The goal to which we all commit is a stronger AA.

I thank the AA team for all you have done this past year to deliver these strong results and for your positive response to this new phase in the life of the AA.

I also thank Chris Jansen for the significant contribution he made in his short time with the AA, and Andy Boland for his sustained and valuable contribution over the many years he was with the AA. We wish them both well.

### Introduction to John Leach, Senior Independent Director

The appointment of John Leach as Senior Independent Director was a key milestone in establishing strong corporate governance at the AA. I am delighted to work alongside him and the other Non-Executive Directors who each play a significant role in the governance of the AA. We have ambitious plans and their contribution will be highly valued as we begin the process of transformation.



**Bob Mackenzie**  
Executive Chairman

### Governance overview from John Leach, Senior Independent Director



I am honoured to have been appointed SID and to be tasked with safeguarding **the interests of our stakeholders**, and particularly the shareholders, of the AA.

**John Leach**  
Senior Independent Director

### Governance

On 26 June 2014, the AA was admitted to the London Stock Exchange (LSE) after its Initial Public Offering (IPO). Having been admitted initially to the Standard List, owing to the accelerated nature of the IPO, we subsequently applied to join and were admitted to the Premium List with its rigorous regulatory requirements on 28 January 2015.

The Board is committed to and recognises the importance and value of good corporate governance. Following the appointment of a majority of non-executive directors, we have established the appropriate practices and procedures for a Premium Listed public company. We comply with the recommendations set out in the UK Corporate Governance Code other than Bob Mackenzie's role of Executive Chairman.

Bob Mackenzie, Martin Clarke and Nick Hewitt, the Management Buy-In (MBI) team, recognised the potential in the AA and the value that bringing it to the stock market would unlock for shareholders. This team, with its extensive experience of transforming business performance and ambitions for the AA, is therefore best placed to deliver the long-term plan for growth. The Board has concluded, with the support of major shareholders, that it would be in the best interests of the business to retain Bob Mackenzie in the role of Executive Chairman. He expects to become Non-Executive Chairman once the transformation is well progressed.

The biographies of our Board are provided on pages 36 and 37 of this report and the Governance report can be found on pages 38 to 45.