INVESTOR REPORT

This is the Investor Report for the six months ending 31 July 2020 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 1.44 million breakdowns in the six months to 31 July 2020 but as expected, Roadside members reduced by 2.0% in the period with the customer retention rate flat at 80%.

- Trading EBITDA was up by £5 million to £166 million in the six months ended 31 July 2020 (2019: £161 million).

- Trading EBITDA margin improved by 7.5% to 36.0% in the six months ended 31 July 2020 (2019: 33.5%).

- Net cash inflows from operating activities before tax and exceptional items were £145 million (2019: £176 million) in the six months ended 31 July 2020.

- The Consolidated Leverage Ratio was 7.8x and the Total Class A Net Debt to EBITDA ratio was 6.1x as at 31 July 2020, compared to 31 July 2019 ratios of 8.2x and 6.4x respectively.

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

Regulatory and business update

We delivered a remarkably strong performance in the first half, reflecting the resilience of our operations and the swift actions we took to mitigate the challenges presented by COVID-19. It is particularly pleasing that during this period, the AA was once again recognised by Which? for the quality of service we provide to our members and customers.

As noted above, the paid membership base reduced by 2% during the period. This was due to the early impact of the lockdown restrictions in March which limited driving on Britain's roads and led to an initial decline in new business volumes. Following the gradual lifting of the lockdown restrictions in June and our recently launched above the line marketing campaign in July, we have seen a steady improvement in new business volumes and expect progressive recovery to continue into H2. Both new business volumes and customer retention rates are currently at near normal levels.

In our Insurance segment, the motor policy book grew by 11.2% during the period to 966,000 policies (H1 20: 803,000, FY20: 869,000) and the home book grew by 0.9% to 852,000 (H1 20: 841,000, FY20: 844,000), reflecting the continued growth of the AA plc group in-house underwriter as well as the benefit of ongoing investment in pricing systems to enhance our competitiveness.

The COVID-19 pandemic continues to have material impact within the UK and internationally. During the first half of FY21, our immediate focus was on operational risks, with several changes to working practices implemented, including home working to ensure the safety of our employees and customers. As the pandemic progressed, we took additional steps to manage any potential conduct risks and ensure customer vulnerability was identified and appropriate measures put in place. We continue to monitor our activities to ensure that the risks and issues posed by COVID-19 on the business are appropriately addressed; however, as the pandemic progresses, particularly with a risk of a second and subsequent waves, direct and indirect effects may continue to have an adverse impact on our operations.

The Group operates two funded defined benefit pension schemes: the AA UK Pension Scheme (AAUK) and the AA Ireland Pension Scheme (AAI). The assets of the schemes are held separately from those of the Group in independently administered funds. The AAUK scheme has a closed final salary and a Career Average Revalued Earnings (CARE) section which was closed from 1 April 2020 following consultation with affected employees. All future pensions build-up from 1 April 2020 in the UK is now on a defined contribution basis. The CARE section provided for benefits to accrue on an average salary basis. The AAI scheme is closed to new entrants and future accrual of benefits.

The insurance industry has seen significant activity from the FCA in the areas of pricing practices, vulnerable customers, affordability in consumer credit and industry COVID-19 responses. The AA has continued to work collaboratively with the FCA in responding to the "Dear CEO" letters and data requests sent out to intermediaries and insurers and has been proactive in advising the FCA of any issues identified during the course of the year, none of which have been material. The FCA's Pricing Practices Consultation Paper was released on 22 September 2020, outlining proposed remedies to support effective competition and lead to good consumer outcomes. There are a number of proposals including requirements to ensure renewal prices offered are no higher than the equivalent new business price as well as requiring firms to assess fair value of the products they sell. We welcome the FCA's proposals and agree with the importance of delivering good outcomes to customers.

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

Total capital expenditure in the six months ended 31 July 2020 was £29 million (2019: £35 million).

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

Financing

On 5 February 2020, the Group issued £325m of Class A8 notes at an interest rate of 5.50% in exchange for £325m of Class A5 notes. £3m of new issue premium associated with the issue of the Class A8 notes was capitalised. In line with accounting for a substantial modification of a debt instrument under IFRS 9, costs of £20m associated with the issue of the Class A8 notes and the cancellation of the Class A5 notes were written off, consisting of £6m of exchange premium, £5m of transaction fees and £9m of unamortised issue costs associated with the Class A5 notes.

On 23 April 2020, consistent with the Group's proactive approach to debt management, the Group announced that it had drawn down in full its £200m Senior Term Facility early to de-risk ahead of the planned refinancing of the remaining £200m Class A3 notes which were due on 31 July 2020.

On 31 July 2020, the Group completed the refinancing of the £200m outstanding Class A3 notes using the proceeds from the Senior Term Facility.

Acquisitions or Disposals

On 21 May 2020, the Group completed the sale of the entire share capital of AA Underwriting Limited and Automobile Association Underwriting Services Limited for cash consideration of £5m. The combined net book value of net assets disposed of was £6m, which resulted in a £1m loss on disposal being recognised. The net outflow of cash to dispose of these subsidiaries was £1m.

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

As at 31 July 2020, the Group's Senior Term Facility is drawn in full. An interest rate swap effective from 31 July 2020 hedges the Group's interest rate exposure in relation to the drawn Senior Term Facility. There is currently no other interest rate exposure to be hedged in relation to the Group's Authorised Credit Facilities.

Ratios

We confirm that in respect of this investor report dated 23 October 2020, 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 2020 £m
Profit before tax	87
Add back:	
Debt interest payable	134
Penalty interest payable	6
Interest payable under finance leases	3
Amortisation of debt issue costs	8
Non cash interest expense	1
Refinancing commissions, discounts and fees	12
Finance costs in respect of pensions	2
Non-cash interest expense attributable to movement in mark-to-market hedging obligations	2
Exceptional items	5
Depreciation and amortisation	88
Movement in fair value of financial instruments	(9)
Difference between the pension service cost and employer cash contributions	4
Share-based payments	4
Less interest receivable	(1)
Class A Maintenance EBITDA	346
Less	
Cash tax paid	(19)
Change in working capital	6
Minimum capital maintenance spend	(35)
Payments for onerous lease	(1)
Class A Free cash flow	297
Class A total debt service charge	104
Class A FCF DSCR	2.9

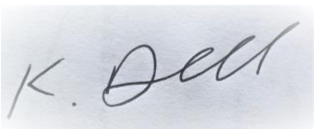
- the maximum amount of Permitted Investor Payments that may be made in the 90 days following the date of required delivery of this Compliance Certificate is £nil, this is because the ratio of Total Class A Net Debt as at the most recent Test Date to EBITDA in respect of the Test Period ending on that Test date is 6.1 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 £207 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,



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Director

For and on behalf of

Automobile Association Developments Limited as Holdco Group Agent