

## INVESTOR REPORT

This is the Investor Report for the six months ending 31 July 2022 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:

- Roadside members increased by 1.3% in the period with the customer retention remaining strong at 81%, in-line with the year end.
- H1 23 Revenue increased 4.1% to £485m (H1 22: £466m).
- Trading EBITDA was in-line with prior year at £163 million in the six months ended 31 July 2022 (2021: £163 million).
- Net cash inflows from operating activities before tax and exceptional items were £128 million in the six months ended 31 July 2022 (2021: £161 million).
- The Consolidated Leverage Ratio was 7.1x and the Total Class A Net Debt to EBITDA ratio was 6.1x as at 31 July 2022, compared to 31 July 2021 ratios of 7.6x and 6.6x respectively.

Further information is available at <https://www.theaacorporate.com>.

### Regulatory and business update

We delivered a good set of results in the first half despite the challenges presented by the economic environment. This demonstrated the quality of our business, the importance of our services and, above all else, the hard work and determination of our people to deliver for our customers.

The paid membership base increased by 1.3% during the period driven by strong growth in new business volumes in recent months and the customer retention rate remained strong at 81%, in-line with 31 January 2022.

In our Insurance segment, the motor policy book grew by 1.4% during the period to 1,041k policies (H1 22: 1,058k, FY22: 1,027k).

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. Both schemes are closed to new entrants and future accrual of benefits.

As reported previously, former Executive Chairman, Bob Mackenzie, who was dismissed for gross misconduct on 1 August 2017, issued a claim form and amended claim form in the High Court, Chancery Division (the “Court”) against AA plc, its subsidiary Automobile Association Developments Limited (referred to herein as the Companies) and personally against a number of their directors (existing and former) and the former Company Secretary.

In November 2018, the claim against all the directors and the former Company Secretary was dismissed in full and Mr. Mackenzie was ordered to pay their costs. Mr. Mackenzie’s amended claim included a claim for personal injury allegedly suffered as a result of stress arising from his role as CEO and Chairman. The Companies successfully applied to strike-out all, bar one, of Mr. Mackenzie’s claims against us. In its judgement the Court agreed that all of Mr. Mackenzie’s claims should be struck out (except for his wrongful dismissal claim which was not part of the strike-out application) meaning at this stage Mr. Mackenzie’s claim has now been defeated. Additionally, Mr. Mackenzie was ordered to pay 90% of the costs we incurred in bringing our application although the exact figure of our costs is still subject to further review.

Mr. Mackenzie obtained permission to appeal the Court’s judgement and the Court of Appeal subsequently dismissed Mr Mackenzie’s appeal on 1 July 2022. The Court of Appeal also refused Mr Mackenzie’s application to appeal the judgment to the Supreme Court and ordered Mr Mackenzie to pay the AA £73,000 as an interim payment towards its costs. Notwithstanding, Mr Mackenzie has sought permission from the Supreme Court to appeal the Court of Appeal's judgement.

As a result of our external advice we have not taken any provision for this matter as we do not anticipate having to make any payment of damages to Mr. Mackenzie.

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 2022 was £39 million (2021: £38 million).

We incurred spend of £5m in the period on CATHIE, our membership system which we are continuing to build out and £6m on implementing our insurance broker policy admin system. There has been no other Capital Expenditure (excluding Maintenance Capital Expenditure) in an amount exceeding £5,000,000 (Indexed) during the period.

### **Financing**

On 13 July 2022 AA Bond Co issued £250m of Class A10 Notes at an interest rate of 7.38%. £2m of issuance fees associated with the issue of the Class A10 Notes were capitalised and will be amortised over the expected maturity of the debt. The proceeds of the issuance of the Class A10 Notes were used to redeem the Class A6 Notes. The A6 redemption was done at a make-whole price and completed on 14 July 2022.

In March 2022 a series of gilt lock hedges totalling £250m were transacted to fix in advance the underlying gilt yield used for the issuance of the A10 Notes on 13 July 2022. The gilt locks were unwound prior to the issuance of the A10 Notes and total cash proceeds of £10m were received by the Group on 6 July 2022.

## 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

As at 31 July 2022, the Group's Senior Term Facility is drawn in full. The facility is subject to a variable interest rate of SONIA plus a Credit Adjustment Spread of 0.28% plus a margin of 2.75% per annum. The Group has an interest rate swap which fixes the variable SONIA interest rate at 0.46% from 1 August 2021 to 10 March 2026.

## Ratios

We confirm that in respect of this investor report dated 29 September 2022, 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:

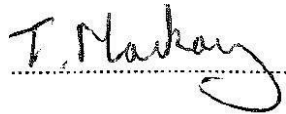
	Year to July 2022 £m
Operating profit before tax	8
Add back:	
Debt interest payable	120
Interest payable under finance leases	1
Amortisation of debt issue costs	6
Discounts and fees in respect of financing	4
Finance costs in respect of pensions	(1)
Exceptional items	54
Depreciation and amortisation	95
Difference between the pension service cost and employer cash contributions	30
Share-based payments	3
Class A Maintenance EBITDA	320
Less	
Cash tax paid	(14)
Change in working capital	15
Minimum capital maintenance spend	(35)
Payments for other provisions	1
Class A Free cash flow	287
Class A total debt service charge	103
Class A FCF DSCR	2.8

- 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 £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 £241 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,

A handwritten signature in black ink, appearing to read 'T. Mackay', is written over a horizontal dotted line. The signature is cursive and extends slightly below the line.

Director

For and on behalf of

Automobile Association Developments Limited as Holdco Group Agent