INVESTOR REPORT

This is the Investor Report for the six months ending 31 July 2021 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 1.5 million breakdowns in the six months to 31 July 2021 and Roadside members increased by 1.8% in the period with the customer retention rate improving by 2pts since year end to 80%.

- Trading EBITDA was down by £2 million to £163 million in the six months ended 31 July 2021 (2020 restated: £165 million).

- Trading EBITDA margin deteriorated by 0.9%% to 35.0% in the six months ended 31 July 2021 (2020 restated: 35.9%).

- Net cash inflows from operating activities before tax and exceptional items were £161 million (2020: £145 million) in the six months ended 31 July 2021.

- The Consolidated Leverage Ratio was 7.6x and the Total Class A Net Debt to EBITDA ratio was 6.6x as at 31 July 2021, compared to 31 July 2020 ratios of 7.8x and 6.1x 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 pandemic. 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 2% during the period driven by strong growth in new business volumes in recent months as restrictions eased, and the customer retention rate improving by 2pts to 80% compared to 78% at 31 January 2021.

In our Insurance segment, the motor policy book grew by 0.6% during the period to 1,058k policies (H1 21: 966k, FY21: 1,052k) and the home book grew by 2.9% to 915k (H1 21: 852k, FY21: 899k), reflecting the continued growth of the AA Limited group in-house underwriter.

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 previously reported, 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 is focused on implementing the new rules around general insurance pricing practices ahead of the 1 January 2022 deadline. 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 2021 was £38 million (2020: £29 million).

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

Financing

On 10 March 2021, the Group refinanced its Senior Term Facility, Working Capital Facility and Liquidity Facility.

The Group entered into a new £150m Senior Term Facility which it drew down immediately and used, in combination with £50m of cash, to refinance its existing £200m Senior Term Facility. The new £150m Senior Term Facility is subject to a variable interest rate of LIBOR plus a margin of 2.75% per annum, and the terms of the loan included provisions for the parties to enter into negotiations to replace the LIBOR benchmark with a suitable replacement benchmark which was expected to be SONIA. The Group had an interest rate swap in place which fixed the variable LIBOR interest rate at 0.97% until 31 July 2021 and has entered into a new interest rate swap which fixes the variable SONIA interest rate at 0.46% from 1 August 2021 to 10 March 2026. £1m of facility arrangement fees were capitalised for the Senior Term Facility.

The Group also agreed a new £56m Working Capital Facility, of which £46m is available for cash drawings and remains undrawn, and cancelled its existing Working Capital Facility of £60m. In addition, the Group agreed a new £160m Liquidity Facility which remains undrawn, and cancelled its existing Liquidity Facility of £165m. As a result of refinancing these facilities, £1m of issue fees were written off.

On 29 January 2021, the Group issued £280m of Class B3 Notes at an interest rate of 6.50%. £10m of issuance fees associated with the issue of the Class B3 Notes were capitalised and will be amortised over the expected life of the debt. The gross proceeds of the issuance of the Class B3 Notes were held in escrow for the benefit of the Group, its Class B Note Trustee and the Class B3 Noteholders until the completion of the Acquisition.

Following the Acquisition, on 10 March 2021, these funds were released from escrow and combined with an equity contribution of £261m from Bidco in order to prepay and redeem the Class B2 Notes. There was no premium paid on repayment of the Class B2 Notes. In addition, £29m aggregate principal amount of Class B2 Notes which were held by AA Limited were surrendered for cancellation. As a result, all £570m of outstanding Class B2 Notes were redeemed as part of this refinancing and following the extinguishment of these borrowings, £2m of associated unamortised fees were written off.

In accordance with the terms of the Acquisition, Bidco stated its intention to provide an additional £100m of funds to be used, together with an issue by the Group of £270m in new Class A9 Notes, to redeem in full the £372m of Class A5 Notes.

On 21 July 2021 AA Bond Co issued £270m of Class A9 Notes at an interest rate of 3.25%. £4m of issuance fees associated with the issue of the Class A9 Notes were capitalised and will be amortised over the expected maturity of the debt. The gross proceeds of the issuance of the Class A9 Notes are held in escrow for the benefit of the Class A9 Noteholders and will be released on redemption of the Class A5 Notes. This is planned to take place before the expected maturity date of the Class A5 Notes in January 2022.

Acquisitions or Disposals

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 2021, the Group's Senior Term Facility is drawn in full. An interest rate swap is in place which 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 25 October 2021, 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 2021 £m
Profit before tax	51
Add back:	
Debt interest payable	132
Interest payable under finance leases	2
Amortisation of debt issue costs	9
Refinancing commissions, discounts and fees	3
Finance costs in respect of pensions	(2)
Non-cash interest expense attributable to movement in mark-to-market hedging obligations	(1)
Exceptional items	51
Depreciation and amortisation	90
Difference between the pension service cost and employer cash contributions	5
Share-based payments	6
Less: Gain from release of Class B2 Notes	(29)
Class A Maintenance EBITDA	317
Less	
Cash tax paid	(6)
Change in working capital	19
Minimum capital maintenance spend	(35)
Payments for onerous lease	-
Class A Free cash flow	295
Class A total debt service charge	102
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 6.6 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 £228 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