INVESTOR REPORT

This is the Investor Report for the six months ending 31 July 2023 (H1 24) which we are required to deliver pursuant to Paragraph 6 of Part A of Schedule 3 of the Common Terms Agreement.

All figures in the commentary below are as per the AA Intermediate Co Limited statutory accounts, post adoption of new IFRS accountings standards such as IFRS 17, IFRS 16 and IFRS 9. We note that the ratios below and the commentary in respect of the Group's debt covenants are calculated after reversing the impact of such GAAP changes as required by the covenant documents.

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 (personal and business) increased by 9% in the period with personal membership renewals remaining strong at 84%, in-line with H1 23.
- H1 24 Revenue increased 8% to £524m (H1 23: £485m) driven by growth in both paid personal membership and business customers, as well as growth in average income per personal member.
- Adjusted EBITDA increased by 2% to £191m (H1 23: £188m) despite significant inflationary and macroeconomic pressures.
- Net cash inflows from operating activities increased to £150m for the six months ended 31 July 2023 (H1 23: £110m).
- The Consolidated Leverage Ratio was 6.6x and the Total Class A Net Debt to EBITDA ratio was 5.7x as at 31 July 2023, compared to 31 July 2022 ratios of 7.1x 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 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.

Our membership base grew significantly during the period driven by strong growth in new business customers and a high level of renewals.

In our Insurance segment, the motor policy book grew by 4% during the period to 1,010k policies (H1 23: 969k).

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.

The Department for Business and Trade (formerly the Department for Business, Energy and Industrial Strategy) has published its plans to strengthen the UK's audit, corporate reporting and corporate governance systems. The proposed measures aim to enhance accountability across the business ecosystem and increase resilience and choice in the statutory audit market. The AA has started to assess the potential impact and is making plans to respond to the expected future direction of financial reporting for in-scope firms.

The AA is required to report on climate-related risks and opportunities in line with the Task Force on Climate-Related Financial Disclosures (TCFD)'s recommendations by the end of this financial year.
The AA recognises that climate change poses risks and opportunities that could impact our business strategy. We also recognise the critical importance of reducing our GHG emissions and are committed to becoming Net Zero for our operational emissions by 2035. Over the last 18 months we have assessed our climate-related risks, undertaken climate-based scenario analysis and have improved the management of climate-related risks as part of our broader risk management framework.
Our Annual Report and Accounts at the end of this year will provide our first disclosure in relation to this work.

During H1 24, the Financial Conduct Authority's (FCA) Consumer Duty regulation comes into force, setting higher and clearer standards of consumer protection across financial services. The AA Intermediate Co Limited Group achieved substantive compliance by 31st July 2023, which is when the regulation came into force.

The Group adopted IFRS 17 on 1 February 2023, which replaces IFRS 4 – Insurance Contracts. IFRS 17 was applied retrospectively as at 1 February 2022. IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts and reinsurance contracts. For more information, please see the AA Intermediate Co Limited interim report (https://www.theaacorporate.com.)

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

Capital Expenditure (excluding Maintenance Capital Expenditure) in the period to 31 January 2023 included growth capital expenditure of £19m related to our Roadside and Insurance business and £9m related to digital projects.

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

Financing

On 6 February 2023 the AA Intermediate group renewed and increased its Liquidity Facility by £15m and by a further £25m on 7 June 2023, to a total of £200m.

On 10 February 2023 the Group increased its Senior Term Facility by £15m to a total of £165m. The additional £15m Senior Term Facility commitments were drawn on 24 March 2023.

On 6 February 2023 the group also issued £400m of Class A11 Notes at an interest rate of 8.45%. The proceeds of the issuance of the Class A11 Notes were used to redeem £308m of Class A7 Notes for a cash payment of £302m on 7 February 2023 tendered by existing note holders as part of a liability management exercise. The remaining surplus cash proceeds of £98m were transferred to a mandatory prepayment account to be held for redemption of Class A7 Notes. A further £10m of Class A7 Notes were purchased from existing bond holders on 3 March 2023 and redeemed. A further £103m of Class A7 Notes were voluntarily repaid on 16 May 2023 and redeemed using the £98m surplus and £5m of additional cash.

On 23 June 2023 the group issued an additional £135m of Class A10 Notes at a yield to maturity of 9.50% and a below par price of 90.31%. The proceeds of the issue of £122m were used in combination with existing cash held to redeem the outstanding £129m of Class A7 Notes.

On 17 August 2023 the group repurchased and cancelled £61m of A2 Notes for cash consideration of £60m. The remaining A2 principal balance after this redemption is £439m.

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

On 10 February 2023 the Group increased its Senior Term Facility by £15m to a total of £165m. The additional £15m Senior Term Facility commitments were drawn on 24 March 2023 and a new interest rate swap was transacted which exchanges SONIA for a fixed interest rate of 4.14%, thereby fixing the incremental £15m of Senior Term Facility borrowings at 7.17% through to 10 March 2026.

The existing £150m Senior Term Facility commitments are 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% through to 10 March 2026.

Ratios

We confirm that in respect of this investor report dated 9 October 2023, 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:

	12 months to July 2023 £m
Operating profit before tax	56
Add back:	
Debt interest payable	137
Penalty interest payable	1
Interest payable under finance leases	1
Amortisation of debt issue costs	6
Discounts and fees in respect of financing	2
Transfer from cash flow hedge reserve	(1)
Finance cost in respect of pensions	2
Exceptional items	37
Depreciation and amortisation	103
Difference between the pension service cost and employer cash contributions	6
Share-based payments	3
Less:	
Gain on below par redemption of loan notes	(6)
Interest receivable	(5)
Class A Maintenance EBITDA	342
Less	
Cash tax paid	(4)
Change in working capital	14
Minimum capital maintenance spend	(40)
Class A Free cash flow	313
Class A total debt service charge	114
Class A FCF DSCR	2.7

- 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 5.7 which exceeds the threshold of 5.5 required before a Permitted Investor Payment can be made.

- We confirm that each of the above Ratios has been calculated in respect of the Test Period(s) or as at the Test Dates for which it is required to be calculated under the Common Terms Agreement.

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 £280m.
- the statements set out in this Investor Report are accurate in all material respects.

Yours faithfully,

T. Mackay

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Tom Mackay

Director

For and on behalf of

Automobile Association Developments Limited as Holdco Group Agent

09 October 2023