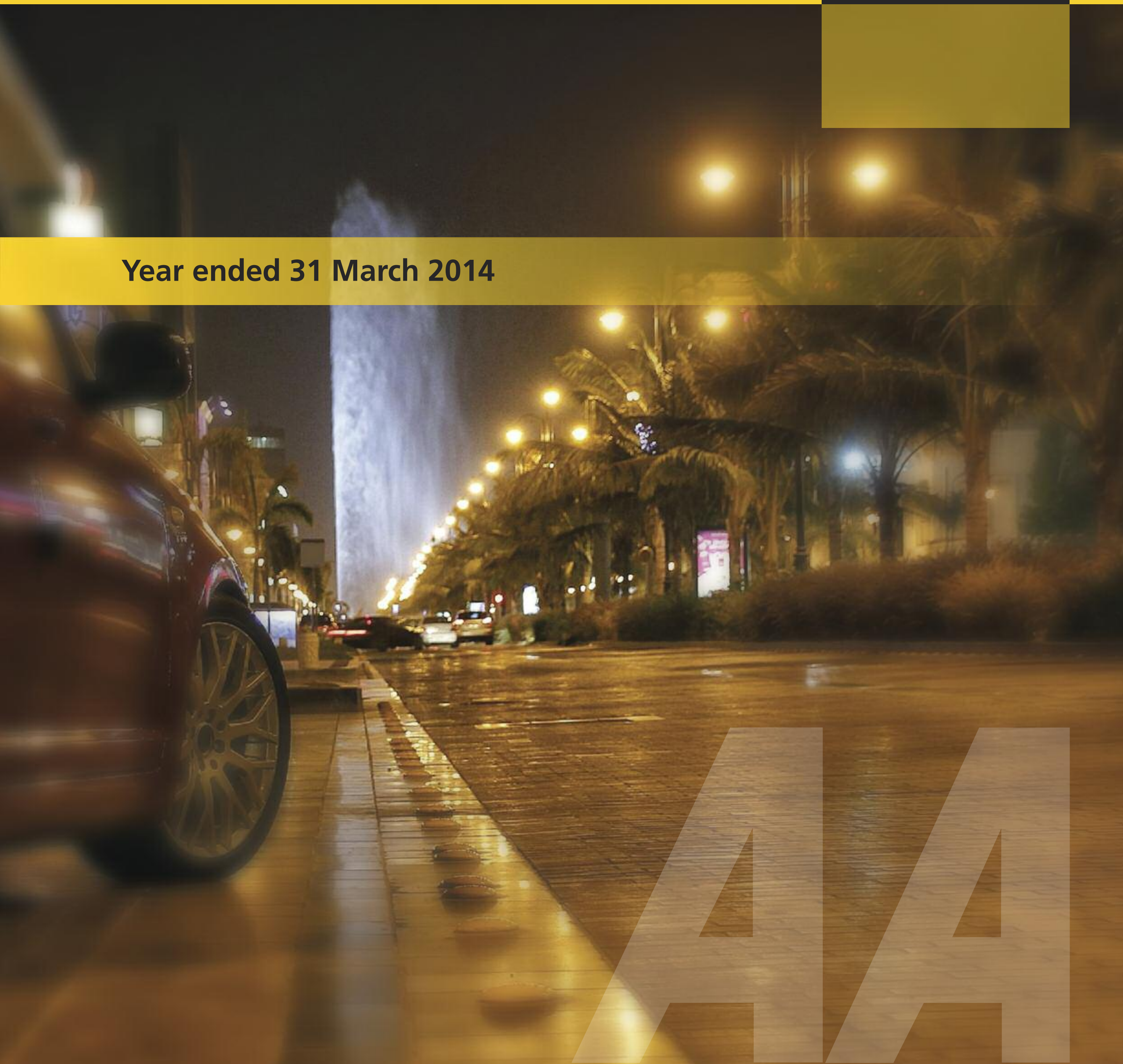
REPORT & ACCOUNTS

2014



Year ended 31 March 2014

AA Pension Scheme
Your Future Now

Registered number: 10098233

Contents

Trustee and its advisers

Year ended 31 March 2014

Trustee	AA Pensions Trustees Limited
Trustee Directors	Company Nominated Mrs J Thomson, Independent Chairman Mr S Dewey Mr S Douglas (resigned 31 August 2014) Member Nominated Mr P Foster Mr P Hall Mr S Millman

Administrative Details:

Scheme Actuary	Mr D Eteen (Fellow of the Institute and Faculty of Actuaries (FIA)) Aon Hewitt Limited
Scheme Administrator	Aon Hewitt Limited (Aon), Briarcliff House, Kingsmead, Farnborough, GU14 7TE Helpline: 0845 850 6406 Email: aa.pensions@aonhewitt.com
Independent Auditors	PricewaterhouseCoopers LLP
Banker	HSBC Bank plc
AVC Providers	The Prudential Assurance Company Limited The Equitable Life Assurance Society
Investment Managers	Aberdeen Unit Trust Managers Limited BlackRock Investment Management Ltd Henderson Global Investors Hewitt Risk Management Services Keyhaven Capital Partners Legal & General Investment Management Ltd Magnitude Capital, LLC Mesirow Advanced Strategies, Inc. Quellos Capital Management (now BlackRock) Threadneedle Pensions Limited
Secretary to the Trustee	Mr Mike Sullivan, Head of Pensions (appointed 1 May 2014) Mr Adrian Furnell, Group Pensions Manager (resigned 30 April 2014) The AA, Fanum House (8th Floor), Basing View, Basingstoke, Hants, RG21 4EA
Legal Advisors	Allen & Overy, Linklaters LLP and Hogan Lovells LLP
Investment Consultants	Aon Hewitt Limited
Custodian	Bank of New York Mellon Corporation
Principal Employer	Automobile Association Developments Limited
Contact Address	Mr Mike Sullivan, Head of Pensions, The AA, Fanum House (8th Floor), Basing View, Basingstoke, Hants, RG21 4EA Helpline: 0845 850 6406 Email: mike.sullivan@theaa.com

Trustee's report

Year ended 31 March 2014

Introduction

The Trustee of the AA Pension Scheme (the 'Scheme') is pleased to present its annual report together with the audited accounts for the year ended 31 March 2014. The Scheme is a Defined Benefit scheme and is administered, on behalf of the Trustee, by Aon Hewitt Limited in accordance with the establishing document and rules, solely for the benefit of its members and other beneficiaries.

Constitution of the Scheme

The Scheme has three categories of benefits:

- Staff section
- Management section (1, 2 and 3)
- Career Average Revalued Earnings section (CARE)

Both the Staff and Management sections are closed to new entrants; only the CARE section of the Scheme is open to eligible employees.

Existing employed members of the Staff section accrue benefits on a Final Salary basis, and an accrual rate of 1/60th. Certain members of the Staff section accrue benefits at the rate of 1/80th.

Both Management sections 1 and 2 provide benefits to existing employed members on a Final Salary basis: Management 1 section has a varying accrual rate dependent upon the seniority of the member. Certain members of the Management 1 section have an accrual rate of 1/55th. Management 2 section has an accrual rate of 1/57th.

The CARE section provides benefits based on the amount of Pensionable Pay received in the year, which will be revalued in line with Retail Price Index (RPI) inflation. The CARE section currently has a choice of five accrual rates ranging from 1.0% to 1.82%.

Management section 3 is also a CARE arrangement and was established in the year under review to accommodate certain employees transferring from the Saga Pension Scheme.

The Scheme is contracted out of the State Second Pension Scheme (S2P) under the provisions of the Pension Schemes Act 1993 for the Staff and Management 1 and 2 sections. The CARE section and Management 3 are contracted in.

The principal employer

The principal employer of the Scheme is Automobile Association Developments Limited (the "AA").

The Scheme is provided for all eligible employees of the principal employer.

Change of ownership of the principal employer

On 26 June 2014, AA plc was listed on the London Stock Exchange and became the ultimate parent company of the AA Group. Acromas Holdings Limited sold all of its shares in AA plc at this time.

Appointment and removal of the Trustee Directors and management of the Scheme

The Trustee Directors' names are included on page 3.

Each Trustee Director is eligible to vote, whether Member Nominated or Company Appointed and the Scheme Rules set out the basis on which decisions are made.

The AA may appoint Company Trustee Directors and may remove any Company Trustee Director it has appointed at any time. Member Nominated Trustee Directors are appointed for three years, but can be re-elected for a further term of office provided they are still eligible. A Trustee Director can resign by giving written notice to the Secretary at any time. The power of removing and/or appointing the Corporate Trustee rests with the principal employer.

The full Trustee Board met 10 times over the year and average attendance by the Trustee Directors was 90%. The Trustee Directors are committed to keeping their technical knowledge up to date and receive training from the Scheme's actuarial, legal and investment advisors periodically at Trustee meetings. They also attend a variety of pension seminars covering ongoing challenges in the industry and read a number of pensions magazines.

In addition to the professional advisers, the Trustee is supported by the AA Pensions Department, from which secretarial services are provided.

Formation of Sub Committees

There are three Sub Committees of the Trustee Board. All Sub Committee meetings are minuted and the minutes are circulated to the full Trustee Board. Representatives are chosen by the Board and make reports to them.

Membership of the Committees at 31 March 2014 was:

Audit Sub Committee
Janet Thomson (Chairman)
Peter Hall

Benefits Sub Committee
Janet Thomson (Chairman)
Steve Dewey
Peter Hall

Asset and Liability Sub Committee
Janet Thomson (Chairman)
Simon Douglas
Pete Foster

Audit Sub Committee

The Audit Sub Committee met once during the year.

Benefits Sub Committee

The Benefits Sub Committee met throughout the year to exercise the Trustee Directors' discretion on the recipient(s) of all discretionary benefits which were subsequently noted by the Trustee.

Asset and Liability Sub Committee

The Asset and Liability Sub Committee met five times during the year.

More details of the changes to investments and the performance of the Scheme for the year can be found in the investment report on pages 10 to 15.

Governance

A risk register has been prepared and is reviewed by the Trustee at least annually. The probability of a risk occurring, and the anticipated consequence to the Scheme if it does, determines the level of priority and investment justified to mitigate it. Typically, higher priority and greater investment will be committed to mitigating a risk that is very likely to occur and which would have a serious impact, in comparison with a risk that is less likely to occur and with a lesser impact. A number of controls are set out against each of the risks identified, outlining the steps in place to reduce the impact to the Scheme if the risk did occur.

The risks have been categorised under a number of headings including:

- Trustee composition and competence
- Regulatory reporting and regulation
- Members and communication
- Funding and investment strategy
- Investment management
- Administration and operations

Each risk has been scored and banded into one of three groups:

- **RED** – high impact or likelihood
- **AMBER** – medium impact or likelihood
- **GREEN** – low impact or likelihood

Governance plan

Following the ongoing risk review, the Trustee has continued to produce a formal one year governance plan to use in operating and managing the Scheme covering three main areas:

- **Mission and goals** - setting out the main goals of the Trustee, the resources available to the Trustee, and the Trustee Directors' key success criteria and performance measures;
- **Reviewing and monitoring goals, risks and performance** - setting out the main areas which the Trustee will review and monitor in order to evaluate various aspects of the Scheme arrangements;
- **Specific actions and year planner** - summarising specific actions, with a target date of completion of each activity.

Strength of Employer Covenant

The Trustee monitors the credit rating and financial strength of the AA Group by having good communication and exchange of information with the AA. The Trustee meets with the Group Finance Director or his representative on a six monthly basis.

In addition, in line with guidance from the Pension Regulator, the Trustee conducted a formal Covenant Review of the AA simultaneously with the Actuarial Valuation as at 31 March 2013 using Baker Tilly as its appointed representative to ensure impartiality. Additionally the Trustee decided to commission Covenant Reviews from Baker Tilly in connection with the AA's refinancing in 2013 and its further refinancing and flotation on the London Stock Exchange in 2014. In all cases the results of these Covenant Reviews were that no untoward issues were identified and the Trustee did not have any specific grounds for concern.

Quarterly actuarial and investment updates

The Trustee also monitors the financial strength of the Scheme by receiving formal quarterly reports from the Scheme Actuary.

The Trustee monitors the performance of the investment managers each quarter.

Membership

Details of the membership of the Scheme as at 31 March 2014 are given below:

	Active members 2014	Pensioners 2014	Members with deferred benefits 2014	**Total 2014**	Total 2013
Membership at the start of the year	4,993	7,206	12,547	**24,746**	24,632
Adjustments *	(299)	14	299	**14**	51
New entrants in the year	277	72	-	**349**	310
Retirements members & beneficiaries	(65)	265	(200)	**-**	-
Death in service	(2)	-	-	**(2)**	(1)
Members leaving with a refund	(5)	-	(1)	**(6)**	(12)
Members leaving with preserved benefits	(411)	-	411	**-**	-
Deaths	-	(168)	(15)	**(183)**	(201)
Transfers out	-	-	(33)	**(33)**	(33)
Cessation of child pensions	-	(17)	-	**(17)**	-
Total membership at the end of the year	**4,488**	**7,372**	**13,008**	**24,868**	24,746

* A significant proportion of these adjustments have arisen from a reconciliation of the AA payroll records to those of Aon Hewitt. All remaining adjustments reflect notification of member movements to the administrator after the completion of the prior year's member statistics.

There are three groups within the Scheme, and the breakdown of the membership within each group is summarised below:

	Active members	Pensioners	Deferred members	**Total 2014**	Total 2013
Staff	2,427	7,276	11,566	**21,269**	21,423
Management	111	36	152	**299**	299
CARE	1,950	60	1,290	**3,300**	3,024
Total	**4,488**	**7,372**	**13,008**	**24,868**	**24,746**
Male	3,264	3,682	6,400	**13,346**	13,243
Female	1,224	3,690	6,608	**11,522**	11,503
Total	**4,488**	**7,372**	**13,008**	**24,868**	**24,746**

Pension increases

Pensions in payment, including early retirement supplements, are increased in April each year in line with the increase in the RPI up to a maximum of 5% for pre 1 July 2010 service and up to a maximum of 2.5% for post 1 July 2010 service. Proportional increases are applied to new pensioners during the year. Deferred pensions are increased in line with legislative requirements.

A history of recent pension increases has been:

April 2009	5.0%
April 2010	0.0%
April 2011	4.6% on pre 1 July 2010 accrued pension; 2.5% on post 1 July 2010 accrued pension
April 2012	5.0% on pre 1 July 2010 accrued pension; 2.5% on post 1 July 2010 accrued pension
April 2013	2.6% on pre 1 July 2010 accrued pension; 2.5% on post 1 July 2010 accrued pension

As the RPI was less than 5% for the purposes of the April 2013 pension increases, increases were not capped in accordance with the Scheme Rules. Certain limited elements of members' pensions are not subject to a cap and received full increases in line with the RPI in accordance with the Scheme Rules.

None of these increases were discretionary.

Different levels of increase are awarded to Jersey and Guernsey pensioners:

Jersey

Pre 23 September 1999 excess:	2.8% increase on 1 April 2013 (Jersey cost of living index)
Post 23 September 1999 excess:	2.8% increase on 1 April 2013 (Jersey cost of living index capped at 5%)

Guernsey

Pre 23 September 1999 excess:	3.0% increase on 1 April 2013 (Guernsey Retail Price Index)
Post 23 September 1999 excess:	3.0% increase on 1 April 2013 (Guernsey Retail Price Index capped at 5%)

Review of financial development of the Scheme

The accounts on pages 18 to 25 show that the value of the Scheme's assets increased by £227,660,000 to £1,797,524,000 as at 31 March 2014. The increase comprised net additions from dealings with members of £197,982,000 and a net increase in the value of investments of £29,678,000.

The accounts have been prepared and audited in accordance with the regulations made under Sections 41 (1) and (6) of the Pensions Act 1995, and with the guidelines set out in the Statement of Recommended Practice, "Financial Reports of Pension Schemes (SORP) Revised May 2007)".

Further details of the financial developments of the Scheme may be found in the audited accounts on pages 18 to 25.

Actuarial Valuation of the Scheme

The accounts set out on pages 18 to 25 do not take into account the liabilities to provide pensions and other benefits which fall due after the year end. These liabilities are considered by the Scheme Actuary who carries out an Actuarial Valuation of the Scheme every three years. The Actuarial Valuation considers the funding position of the Scheme and the level of contributions payable.

The latest Triennial Valuation of the Scheme was carried out as at 31 March 2013.

The Actuarial Valuation results showed using assumptions determined by the Trustee, based on the advice of the Scheme Actuary and agreed with the AA, that there was a shortfall of £202 million relative to the technical provisions (i.e. the level of assets agreed by the Trustee and the AA as being appropriate to meet member benefits, assuming the Scheme continues as a going concern) as at 31 March 2013. This equates to a funding level of 89%. The corresponding funding level as at the 31 March 2010 Actuarial Valuation was 93%. The solvency funding level as at 31 March 2013 was 50%.

As the key output from the 2013 Actuarial Valuation discussion, the AA has been paying, with effect from 1 November 2013, the following contribution rates in respect of future benefit accrual:

Scheme Section	% of Pensionable Earnings/Pay
Staff	13.3
Management 1	14.7
Management 2	16.6
CARE	6.3

As a result of a business restructuring, a new section of the Scheme was set up with effect from 1 January 2014 in order to provide 'mirror image' benefits to those employees who were transferring from the Saga business to the AA business. The new section is referred to as the 'Management Section 3' and the Company has been paying contributions at the rate of 16.0% of Pensionable Earnings/Pay with effect from 1 January 2014.

In order to eliminate the funding deficit calculated at the Actuarial Valuation as at 31 March 2013, the Trustee and the Company have agreed a Recovery Plan, whereby the Scheme will receive deficit contributions of £12.2 million each year, payable in monthly instalments for a 25 year period commencing on 1 November 2013 and ending on 31 October 2038. The monthly deficit contributions will increase by RPI on 1 April each year (subject to maximum annual increase of 5% and a minimum annual increase of 0%).

It is envisaged that the deficit contributions will be paid from AA Pensions Funding LP (the 'ABF' - see below for further information). However, in the event that AA Pensions Funding LP is unable to pay any of the deficit contributions in full, the Company is required to pay the balance.

At the time of the 2011 valuation, the Trustee and the AA agreed that over the following three years, the AA would pay three payments of £5 million into an escrow account, which could be used for liability management purposes. It was agreed that if the funding position had deteriorated as at 31 March 2013, any monies remaining in the escrow account would be paid into the Scheme and the sum of £15.1 million was paid to the Scheme on 31 July 2013.

In addition, the AA will continue to pay all the costs associated with the running of the Scheme (including the payment of Pension Protection Fund (PPF) levies).

The actuarial certificate, which confirms that the calculation of the Scheme's Technical Provisions is in accordance with regulations under the Pensions Act 2004, is included on page 28 of this report.

The next Actuarial Valuation is due as at 31 March 2016.

The key assumptions underlying the Actuarial Valuation, which was carried out using the projected unit method, were as follows:

Discount rate - technical provisions:	
■ period before benefits come into payment	6.15% pa
■ period once benefits are in payment	3.40% pa
Discount rate - future service contribution rates:	
■ period before benefits come into payment	6.35% pa
■ period once benefits are in payment	3.60% pa
Rate of general salary increases	4.80% pa
Price inflation	3.70% pa
Rate of pension and deferred pension increases (on pension in excess of GMP)	2.20% pa to 3.70% pa dependent on the section of the Scheme
Post retirement mortality: life expectancy for current 65 year old pensioners	87.8 years (males), 90.1 years (females)
Post retirement mortality: life expectancy at age 65 for active and deferred members currently aged 40	90.5 years (males), 93.0 years (females)

Change in 'Super Security' - introduction of the Asset Backed Funding (ABF)

Previously there was an agreement in place between the Trustee and the AA whereby the Scheme had access to £150 million of additional security (known as 'Super Security') in the event that the AA defaulted on its obligations to the Scheme (i.e. failed to pay contributions when required).

As part of the Company refinancing undertaken in 2013, the Trustee and Company agreed to replace the £150 million 'Super Security' with a new £198 million facility that is provided via an ABF arrangement and is secured against the assets of AA Brand Management Limited which owns all of the AA Group's intellectual property.

The Trustee views the new ABF arrangement as an improvement over the previous 'Super Security' for the followings reasons:

- The security has increased from £150 million to £198 million.
- The security is backed by a dedicated asset (the AA Group's intellectual property) over which the Trustee has first call (up to a maximum of £200 million) on the occurrence of certain trigger events (e.g. a failure to pay a deficit contribution to the Scheme). This is in contrast to the 'Super Security' where the Trustee only had equal rights with the AA Group's banks over the assets of the Company (up to a maximum of £150 million).
- An independent valuation of the AA brands carried out for the Trustee provided comfort that there is considerable headroom between the amount of the security and the value of the AA brands.

Administration of benefits

The Trustee has formally appointed the AA to carry out day-to-day administration of the Scheme. In turn the AA has, with the consent of the Trustee, outsourced the administration of the Scheme, except for pensioner payroll processing, to a third party provider of administration services, Aon Hewitt Limited (Aon).

Additional Voluntary Contributions (AVCs)

Additional Voluntary Contributions (AVCs) provide an opportunity for members of the Scheme to increase their benefits at retirement in a tax efficient manner. Currently AVCs attract tax relief at the member's highest rate of tax. Money Purchase AVCs paid by members form a separately identifiable section of the assets of the Scheme.

Members can join the AVC scheme with Prudential or change their AVC contributions at any time. Full details are available on request from the administrators (Aon) whose contact details appear on page 3. There is additional information regarding the 2014 changes available by visiting the Scheme's website at **www.AApensions.com**.

Certain members also have AVC benefits with Equitable Life and these remain invested with them although no new contributions are accepted to this fund.

Members can choose to invest their contributions in a range of different funds. On retirement, the value of the individual member's fund is determined and used to increase benefits from the Scheme.

Transfer values

The Trustee is responsible for setting the economic, financial and demographic assumptions to be used in calculating transfer values, having taken the advice of the Scheme Actuary. In accordance with the direction of the Trustee, no allowance for discretionary benefits has been made in the calculation of transfer values. No transfers were made at less than their cash equivalent.

Nomination forms

The Trustee wishes to remind members that they can indicate to the Trustee the persons to whom they wish any lump sum benefits and pension benefits to be paid in the event of their death. The Trustee will then be able to take members' wishes into account, although it is not obliged to do so. Members are also urged to review their Nomination Form should their circumstances change.

Nomination Forms can be completed online by visiting the Scheme's website at **www.AApensions.com** or alternatively forms can be requested from Aon or the AA Pensions Department.

Further information

Further information about the Scheme is available to members and prospective members, their spouses and other beneficiaries together with all recognised trade unions, on request. In particular, the documents constituting the Scheme, the Rules, the latest Actuarial Report and the Trustee's Statement of Investment Principles can be inspected or copies can be obtained for a small fee.

Individual benefit statements are provided online to active members annually. In addition to the information shown on these statements members can request details of the amount of their current transfer value and, if applicable, the current amount of any refund of contributions to which they would be entitled on leaving service. Such requests cannot, however, be made more frequently than once a year.

Queries concerning the Scheme in general or a member's pension position, or further information, about the Scheme should be directed to Mr Mike Sullivan, at the address below.

If you have any complaints in relation to the Scheme you should in the first instance contact:

Mr Mike Sullivan
Head of Pensions
The AA
Fanum House (8th Floor)
Basing View
Basingstoke
Hants
RG21 4EA

mike.sullivan@theaa.com
Helpline: 0845 850 6406

The Data Protection Act 1984 covered information which was held electronically, i.e. computer-based information. The Data Protection Act 1998 extended data protection laws to cover paper-based records held for individuals and new restrictions on the processing of sensitive personal data to which individuals must have given express consent. Sensitive information can include information on, for example, the health of a member.

Members' data will be used by the Scheme's advisers to administer the Scheme and the provision of members' death-in-service benefits, and may be passed to other professional providers or advisers in order to administer the Scheme as necessary.

The Trustee, the Employer and the Scheme's advisers each have a legal obligation and a legitimate interest to process data relating to members for the purpose of administering and operating the Scheme, which includes passing on data to third parties, as mentioned above.

The Trustee and the AA are regarded as 'Data Controllers', for the purposes of the Data Protection Act 1998, in relation to the process referred to above. The advisers appointed by the Trustee are 'Data Processors'.

Investment report

General

The Trustee sets the general investment policy and has ultimate responsibility for decision-making on investment matters. The Trustee decides the investment strategy having taken appropriate advice from the Scheme Actuary and Investment Consultant.

The Trustee has established an Asset and Liability Sub Committee to handle the majority of investment matters and to make recommendations to the Trustee where decisions are required to be taken by the Trustee. The Asset and Liability Sub Committee minutes are regular items at Trustee board meetings.

The Asset and Liability Sub Committee ensures that the assets of the Scheme are managed professionally and is responsible for the appointment of investment managers. The performance of the appointed managers and the Scheme as a whole are measured against specific benchmarks and targets.

The Trustee has considered social, environmental and ethically responsible investments and has delegated to the Investment Managers responsibility for taking into account social, environmental and ethical considerations in the selection, retention and realisation of investments and, where applicable, for voting and for corporate governance in relation to the Fund's investments.

Investment objectives

The investment objectives of the Scheme are:

- To acquire suitable assets having due regard to the risks involved in the investment of assets, which will generate income and capital growth to meet, together with new contributions from members and the AA, the cost of current and future benefits which the Scheme provides.
- To limit the risk of the assets failing to meet the liabilities over the longer term, in particular in relation to any relevant scheme-specific funding test.
- To minimise the long-term costs of the Scheme by maximising the return on the assets whilst having regard to the objectives shown above.

The investment objectives of the Scheme are not set relative to the performance of other pension funds.

Strategic asset allocation

The Scheme's strategic asset allocation is driven by the financial characteristics of the Scheme, in particular the Scheme's liabilities and the risk tolerance of the Trustee and the AA.

The Scheme's strategic asset allocation has been set following an asset/liability review which considered the full range of investment opportunities available to the Scheme, including an assessment of all the major asset classes and some alternative asset classes.

The Trustee seeks to achieve the Scheme's investment objectives through investing in a suitably diversified mix of real and monetary assets that takes account of investment risk and return.

The strategic asset allocation below is in place in respect of the underlying assets within the funds in which the Scheme invests.

Asset Class	Actual	Target Benchmark
	%	%
Equities	**23.6**	**23.0**
Listed	20.9	18.0
Private	2.7	5.0
Bonds	**25.2**	**25.0**
Gilts - Fixed Interest	5.0	6.0
Gilts - Index Linked	20.2	19.0
Alternative investments	**13.8**	**16.0**
Fund of Hedge Funds	7.1	8.0
Property	6.7	8.0
Cash	**1.4**	**1.0**
Delegated Consultancy Service	**35.8**	**35.0**
Multi-Asset portfolio	15.5	15.0
Alternatives portfolio	4.2	5.0
Growth portfolio	8.6	9.0
Liability Matching portfolio	7.5	6.0
Total	**100.0**	**100.0**

Asset Backed Funding

In addition, the Trustee has an off-benchmark allocation to the ABF arrangement which provides an annual income and offers additional interest rate hedging and inflation hedging protection to the Scheme.

The ABF arrangement provides the Scheme with an asset producing an initial annual income of £12.2 million, on an initial investment of £198 million. The £12.2 million annual income is indexed and so will increase in line with the Retail Price Index subject to a maximum of 5% and a minimum of 0%. The income may reduce to zero if the Scheme is fully funded but the annual income can subsequently be switched back on again if the funding level falls. The income stream to the Trustee will be payable through an interest in the ABF, which will hold a 25 year loan note (due 2038) backed by royalties payable in respect of the AA's brands. The ABF is secured by way of priority security over the brands. The Scheme's direct involvement in the structure is as a Limited Partner. Should the ABF terminate early during the 25 year period, the Trustee is entitled to a payment of £200 million from the ABF, referred to as the Pension Liquidity preference. The ABF may terminate early under other circumstances, such as a change in law or by unanimous agreement by all parties however, this would not give rise to the £200 million payment. In the event of a change in law rendering the ABF *ultra vires* the Company is required to make the deficit payments directly in accordance with the Schedule of Contributions.

Direct investments in the sponsor are legally limited to a maximum of 5% of total Scheme assets. In accordance with the Occupational Pension Schemes (Investment of Scheme's Resources) Regulations 1992, there is no self-investment in the Employer of the Scheme during the year (that is, no investment in shares, loans or property of the AA or related entities). The Trustee has received legal advice that its interest in the ABF does not constitute an employer-related investment for the purposes of the Pensions Act 1995 as there is no direct investment in the AA.

The Trustee undertakes to review the Scheme's asset allocation at least annually.

Risk management

The Trustee seeks to balance the risks and rewards associated with investments by diversifying the investments held over a variety of asset classes and by appointing investment managers with different investment philosophies and styles.

The Trustee considers equity investments to be more risky assets than bonds, but with the potential for greater returns and believes that the active management of investments in some asset classes can enhance returns, net of fees, over the long term.

Investment manager structure

During the period, the Scheme employed ten investment managers with the following roles:

Investment manager	Mandate
Aberdeen Unit Trust Managers Limited (Aberdeen)	Active global equity
BlackRock Investment Management Ltd (BlackRock)	UK property
BlackRock Investment Management Ltd (Quellos)	US private equity
Henderson Global Investors (Henderson)	European property
Hewitt Risk Management Services Limited (Hewitt Risk Management Services)	Multi Asset, liability hedging
Keyhaven Capital Partners (Keyhaven)	European private equity
Legal & General Investment Management Ltd (Legal & General)	Passive equities and gilts
Magnitude Capital, LLC (Magnitude)	Fund of hedge funds
Mesirow Advanced Strategies, Inc (Mesirow)	Fund of hedge funds
Threadneedle Pensions Limited (Threadneedle)	UK property

The investment managers chosen have been selected to provide an adequate diversification of fund management organisation and investment style.

The managers have been set mandate-specific benchmarks and performance objectives with explicit risk parameters, where appropriate. The overall benchmark and asset ranges specified are designed to ensure that the Scheme's investments are adequately diversified and suitable for the Scheme, given its liability profile, its funding level and the Covenant of the Employer.

The allocation to active and passive management has been developed following the consideration of the efficiency (risk/return balance), liquidity and level of transaction costs likely to prevail within each market as well as the impact of the investment manager fees on future expected (net) returns.

Approximately 60% of currency exposure to various assets is hedged via currency hedged equity funds with Legal & General and strategies held with Magnitude and Mesirow Fund of Hedge Funds.

Investment manager fees

Investment costs are paid out of the assets of the Scheme. All managers are paid a fee based on the market value of the investments held at the end of each quarter. Magnitude, Mesirow, Henderson and Hewitt Risk Management Services have performance fees which are payable on outperformance against/compared with agreed benchmarks.

Investments in the BlackRock Property Unit Trust have a fee, which is deducted from income distributions from the units. Additional monies were invested with BlackRock over the year and Aon Hewitt negotiated a fee reduction in the annual investment management fee payable to BlackRock Property Unit Trust.

Review of investment markets for the year to 31 March 2014

This report has been provided by Aon Hewitt Limited the investment consultants for the AA Pension Scheme.

Over the year to 31 March 2014, markets were dominated by monetary policy. The Federal Reserve (Fed) continued its open-ended quantitative easing (QE) programme to support the US economy. However, investors became anxious in May 2013 as Fed Chairman Bernanke signalled a reduction in QE sooner than expected. The Fed actually initiated its withdrawal of QE in December. As the Fed continued to wind down its asset purchases, Bernanke's successor Janet Yellen emphasised her commitment to maintain accommodative monetary policy to support continuing economic growth. Both Yellen and Bank of England Governor Mark Carney changed course on their respective forward guidance policies, playing down dependence on the unemployment rate, which had been falling faster than anticipated in both the US and UK.

The Eurozone emerged from recession in Q2 2013, led by stronger German growth, although many peripheral countries continued to struggle. For many developed economies, economic data picked up over the year, with a string of strong Purchasing Managers' Index (PMI) releases globally in the second half of 2013. Growth in emerging economies slowed however, with the larger economies, such as China, particularly disappointing investors.

Improving UK economic data caused Sterling to appreciate against most other currencies over the year. Sterling strengthened by 8.9% against the US Dollar and 2.2% against the Euro due to a reduction in Eurozone growth forecasts. The Yen depreciated by 16.8% against Sterling due to an announcement of a massive escalation in monetary easing to boost growth and tackle deflation.

Markets brushed aside concerns over a reduction in QE, and despite various economic and political difficulties, global equity returns were strong over the 12 months to 31 March 2014, and the MSCI All Country World Index returned 17.4% in local currency terms. However, sterling strength over the year eroded the majority of these returns, and the sterling return on the index was 6.7%.

UK fixed interest gilts provided negative return over the year as better economic data and speculation over an end to QE in the US put upward pressure on UK bond yields. UK corporate bonds returned 1.6% over the year as the narrowing of credit spreads offset the rise in gilt yields.

UK property returns were positive, with the IPD Monthly Index rising 14.0% over the period.

Equities

The UK equity market returned 8.8% over the year to 31 March 2014, overshadowed by other developing markets, despite some encouraging economic data and having the fastest developed market GDP growth. Telecommunications (24.2%) produced the strongest sector returns, whilst the Basic Materials sector (-0.9%) was the worst performing sector. Small cap equities climbed 20.4% over the year, outperforming large (6.7%) and mid cap (19.9%) equities.

Over the 12 months, US equities provided the highest return in local currency terms (22.2%) whilst returning 11.3% in sterling terms due to sterling strength. Despite investors having to adjust to the prospect of a return to normal monetary policy, equities were able to sustain gains over the period. Continental European equities returned 21.2% in local currency terms, which equated to 17.3% in sterling terms, higher than in any other region. The Eurozone economy arose from recession in Q2 of last year, and economic data has been picking up since. GDP growth over 2013 was 0.3%, the first positive year-on-year growth figure in eight quarters. Markets reacted positively, spurring strong equity gains over the period. Japanese equities performed exceptionally well in 2013 as new government and central bank leadership led to an aggressive stimulus package in an attempt to jumpstart growth and end years of deflation. However, Japanese equities lost their momentum at the start of 2014 as investors became worried about the implications of a weaker Chinese economy on Japanese exports and the stalling progress of reforms. Japanese equities returned 18.4% in yen terms over the 12 months to 31 March 2014, but the combination of sterling strength and yen weakness meant that the return to sterling investors was -1.6%.

Emerging Markets lagged developed markets and were the worst performers in both local currency (3.8%) and sterling (-9.9%) terms. This poor performance was due to a slowdown in emerging market growth and weaker commodity prices. Investors also grew concerned about the impact of Fed monetary policy on the region.

Technology (15.4%) and Health Care (14.6%) were the best performing sectors in the FTSE All World ex UK index. Basic Materials (-4.1%) was the worst performing sector.

Bonds

UK fixed interest gilts provided a negative return over the year as stronger economic data and rising US yields put upward pressure on UK bond yields, particularly over the first half of the year. UK fixed interest gilts returned -2.6%. Index-linked gilt returns were weaker than their fixed interest gilt counterparts, returning -3.8%, as breakeven inflation levels decreased caused by a fall in near-term inflation expectations. Bonds with medium maturities underperformed those with short and long maturities.

UK iBoxx non-gilts credit spreads (the difference between the yields on non-government bonds and equivalent maturity government bonds) reduced by 0.37% to 1.25% over the year, which led to outperformance against government bonds. Credit spreads narrowed the most for BBB-rated issues whilst AAA-rated spreads reduced the least. The combination of income return and narrowing credit spreads more than offset the increase in gilt yields over the year and corporate bonds returned 1.6%, outperforming gilts.

Alternative assets

A popular hedge fund index, the HFRI Fund of Funds Composite Index returned 6.0% over the period. Throughout 2013 the US economy continued to be weaker than anticipated. The May sell-off in the US Treasury curve surprised many but was used by Hedge Funds as an opportunity to focus on distressed corporate credit and structured credit. In particular, overweights to Credit and Event strategies focusing on European opportunities contributed positively to returns. Relative Value and Macro dragged on performance for many as Relative Value continued to be challenged by lack of good risk differentiation in markets.

UK commercial property had a strong year and returned 14.0% as measured by the IPD Property Index over the year, giving the highest 12 month return since 2010, as income returns, capital growth and rental value growth all returned positively. Returns for UK commercial property improved steadily throughout 2013 as wider macro-economic conditions improved and confidence subsequently grew in assets outside prime or Central London locations-a turnaround from previously declining property values.

Regional returns and property values have risen in line with economic data showing improvements across the UK economy. However, there remains a variation in performance between sectors. The industrial and office sectors have performed significantly better than the retail sector where concerns over the prospects for high street retailing (particularly outside key urban centres) are dampening returns. These concerns are reflected in weak occupier demand for high street retail units at the current time.

European property has seen continued growth in activity across the core economies as momentum has gathered behind a gradual recovery. Whilst volumes have increased in peripheral economies this is from a very low base and restricted to handful of deals in each market. Germany in particular drove the year on year increase with transaction volumes increasing by 47%.

The private equity market has seen the highest aggregate amount of capital raised by private equity firms since 2008, with 873 funds reaching a final close and raising an aggregate of $454 billion. Fundraising remains bifurcated, with top quality managers able to raise funds very quickly and lower quality managers struggling to raise capital. Over the longer term, private equity has performed well. 2013 saw a record number of private equity backed buyout exits with 1,348 exits valued at $303 billion. Limited partners benefited from strong distributions during 2013. Investor interest in private equity has remained strong.

Investment performance and benchmark

The overall performance target for the Scheme is not framed relative to the performance of other pension schemes. The managers have been set mandate specific benchmarks which have clear performance objectives attached. The overall benchmark and asset ranges specified are designed to ensure that the Scheme's investments are adequately diversified and suitable for the Scheme given its liability profile, its funding level and the Covenant of the Employer.

Bank of New York Mellon Corporation is appointed to provide investment accounting and performance measurement services to the Scheme and measures the performance of the managers.

In the year to 31 March 2014, the Scheme achieved a return of 3.0% which was 1.2% ahead of the benchmark return of 1.8%. The Scheme benefited from strong relative performances from all of the delegated mandates and the hedge fund managers as most asset classes and hedge fund strategies reported positive performance over the year. All mandates posted positive absolute returns over the year except the index linked gilt fund, fixed interest gilt fund and multi asset delegated mandate. Four managers underperformed relative to benchmark over the year - Threadneedle, Keyhaven, Aberdeen and Henderson. Aberdeen's performance continued to be below benchmark as the manager was overweight to emerging markets relative to North America. The Emerging markets region was the weakest performing region over the year whilst North America was one of the strongest performing regions. Henderson continued to struggle as holdings were sold below net realisable value to meet redemption requests.

The annualised longer term performance of the Scheme gross of manager fees has been:

Period	Scheme return (%)	Benchmark return (%)
3 years	9.8	6.8

At 31 March 2014, the value of the investments held in each manager's portfolio was:

Manager	£m	£m	% of total
Equities			
Legal & General	179.8		10.1
Keyhaven (private equity)	17.8		1.0
Quellos (private equity)	25.8		1.4
Aberdeen Assets	147.1		8.2
		370.5	**20.7**
Bonds			
Legal & General	405.7	**405.7**	**22.7**
Alternative investments			
BlackRock (UK property)	57.9		3.2
Magnitude	76.5		4.3
Henderson (property)	13.2		0.7
Mesirow	36.4		2.1
Threadneedle (property)	35.0		2.0
		219.0	**12.3**
Delegated Consultancy Service			
Hewitt Risk Management Services	568.0	**568.0**	**31.8**
Asset Backed Funding	200.0	**200.0**	**11.7**
Cash	6.5		0.4
Cash Instruments	0.8		0.0
Other assets (including AVCs)	7.3		0.4
		14.6	**0.8**
Total investments		**1,777.8**	**100.0**

Statement of Investment Principles

The Trustee has produced a Statement of Investment Principles as required by Section 35 of the Pensions Act 1995. The current version was updated in February 2014 and is available on request from the Scheme Secretary.

Custody of assets

Bank of New York Mellon Corporation acts as the global custodian to the Scheme; its responsibilities include:

- The safekeeping of the assets of the Scheme
- Processing the settlement of transactions
- Providing the Trustee with statements of the assets and the cashflows
- Dealing with corporate actions
- Providing performance measurement services
- Ensuring appropriate safeguards relating to stocklending when entered into by the Scheme.

Bank of New York Mellon is the custodian for the assets managed by Hewitt Risk Management Services.

The Trustee reviews the internal controls reports produced by the custodian.

Custody fees are based on the portfolio values and include standard charges.

The underlying assets invested within the various pooled funds are held by separate independent custodians appointed by the pooled fund managers. The units held by the Scheme in each pooled fund are recorded by the Bank of New York Mellon Corporation.

Investment restrictions

Restrictions placed on the investment managers include the following:

- The proportion in contingent liabilities
- Amount of gearing
- Pooled funds without prior permission
- Maximum position sizes
- Sector and stock weights relative to the benchmark
- Use of soft commission arrangements
- Concentration of cash deposits
- Underwriting
- The level of foreign exchange related transactions that can be undertaken (not including those for hedging purposes)
- Credit rating, currency and duration limits in the bond mandates
- Voting policies

In accordance with the Occupational Pension Schemes (Investment of Scheme's Resources) Regulations 1992, there is no self-investment in the employer of the Scheme during the year (that is, no investment in shares, loans or property of the AA or related entities).

The Scheme holds pooled investment vehicles with underlying investments in private equity, Hedge Funds and Funds of Hedge Funds. These are not quoted on a recognised stock exchange and are therefore not readily marketable. Some of the Hedge Funds are subject to restrictions on the withdrawal of funds.

Statement of Trustee's responsibilities

The accounts, which are prepared in accordance with UK Generally Accepted Accounting Practice, are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited accounts for each Scheme year which:

- Show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- Contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996.

The Trustee is responsible for supervising the preparation of the accounts and for agreeing suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis.

The Trustee is also responsible for making available certain other information about the Scheme in the form of an annual report.

The Trustee is responsible under pensions legislation for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions. Where breaches of the schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and to members.

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The Trustee is also responsible for the maintenance and integrity of the Scheme website (**www.AApensions.com**). Legislation in the United Kingdom governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

The Trustee report, the Investment report and the Statement of Trustee's responsibilities are signed for and on behalf of the Trustee:

Trustee Director: Janet Thomson

Trustee Director: Peter Hall

Date: 24 September 2014

Independent Auditors' report to the Trustee of the AA Pension Scheme

Report on the Accounts

Our opinion

In our opinion the accounts, defined below:

- Show a true and fair view of the financial transactions of the Scheme during the year ended 31 March 2014, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The accounts, which are prepared by the AA Pension Scheme, comprise:

- The net assets statement as at 31 March 2014;
- The fund account for the year then ended; and
- The notes to the accounts, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Trustee has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, it has made assumptions and considered future events.

What an audit of accounts involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the accounts sufficient to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- Whether the accounting policies are appropriate to the Scheme's circumstances and have been consistently applied and adequately disclosed;
- The reasonableness of significant accounting estimates made by the Trustee; and
- The overall presentation of the accounts.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Responsibilities for the Accounts and the Audit

Our responsibilities and those of the Trustee

As explained more fully in the Statement of Trustee's responsibilities, the Trustee is responsible for the preparation of the accounts and being satisfied that they show a true and fair view.

Our responsibility is to audit and express an opinion on the accounts in accordance with applicable law and ISAs (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the Trustee as a body in accordance with Section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Signature: PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading

Date: 24 September 2014

Fund account

For the year ended 31 March 2014

	Note	31 March 2014 £000	31 March 2013 £000
Contributions and Benefits			
Contributions	3	239,791	25,205
Other income	4	15	7
		239,806	25,212
Benefits	5	(39,471)	(36,896)
Payment to and on account of leavers	6	(2,353)	(1,747)
		(41,824)	(38,643)
Net additions/(withdrawals) from dealings with members		197,982	(13,431)
Returns on investments			
Investment income	7	3,561	4,664
Change in market value of investments	8	27,060	178,770
Investment management expenses	9	(943)	(806)
Net returns on investments		29,678	182,628
Net increase in the Scheme during the year		227,660	169,197
Net assets of the Scheme at 1 April		1,569,864	1,400,667
Net assets of the Scheme at 31 March		1,797,524	1,569,864

The notes on pages 20 to 25 form an integral part of these accounts.

Net assets statement

As at 31 March 2014

	Note	31 March 2014 £000	31 March 2013 £000
Investment assets	8	1,778,010	1,565,553
Current assets	10	19,805	4,935
Current liabilities	10	(291)	(624)
Net assets at 31 March		**1,797,524**	1,569,864

The accounts summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the Actuarial Valuation of the Scheme on pages 7 and 8 of the Trustee report together with the Actuarial Certificates on pages 28 and 29 and these accounts should be read in conjunction with them.

The notes on pages 20 to 25 form an integral part of these accounts.

These accounts were approved by the Trustee and were signed on their behalf by:

Trustee Director: Janet Thomson

Trustee Director: Peter Hall

Date: 24 September 2014

Notes to the Accounts

For the year ended 31 March 2014

1. Basis of preparation

The accounts have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, and with the guidelines set out in the Statement of Recommended Practice, "Financial Reports of Pension Schemes" (revised May 2007).

2. Accounting policies

The following principal accounting policies have been adopted in the preparation of the accounts. They have been adopted consistently.

2.1 Accruals concept

The accounts have been prepared on an accruals basis.

2.2 Contributions and benefits

Member contributions, including Additional Voluntary Contributions, are accounted for as they are deducted from pay. Employer's normal contributions are accounted for in the period to which the corresponding pay relates.

Employer deficit contributions are accounted for in accordance with the agreement under which they are being paid, or in the absence of any agreement, when received.

The current year asset backed deficit funding contributions have arisen from the Scheme entering into the ABF arrangement, under the terms previously detailed in the Investment Report. The initial value of the arrangement has been reflected as asset backed deficit funding contributions under Note 3 to the accounts and as a purchase of the ABF arrangement under Note 8 on page 23. ABF sales are in respect of income payments generated by the asset and are accounted for on an accruals basis.

Augmentations relate to the cost of augmenting benefits of certain retiring members, as advised by the Actuary. They are accounted for in accordance with the agreement under which they are paid. In the absence of any formal agreement they are accounted for on a receipts basis.

Redundancy payments relate to enhancing the benefits of certain members. They are accounted for in accordance with the agreement under which they are paid. In the absence of any formal agreement they are accounted for on a receipts basis.

AVCs are accounted for on an accruals basis, and the resulting investments are included within the net assets statement at the value provided by the AVC providers. Where there is no value provided they are included within the net assets statement on a cash basis.

Benefits payable in respect of the Scheme year are accounted for by reference to the year to which they relate. Refunds, lump sums and annuity purchases are accounted for either on a cash basis if members can exercise a choice in relation to these benefits, or where members have no choice in relation to these benefits, by reference to the date of retirement or leaving the Scheme.

2.3 Investment income

Income arising from the underlying investments of the pooled investment vehicles, that is reinvested within the pooled investment vehicles, is reflected in the unit price. Such income is reported within the change in market value.

Income from pooled investment vehicles which distribute income, is accounted for on an accruals basis on the date stocks are quoted ex-dividend/ interest.

Income from the ABF investment is accounted for on an accruals basis.

Investment income includes withholding taxes but excludes any other taxes, such as attributable tax credits, not payable wholly on behalf of the recipient. Withholding tax is accrued on the same basis as investment income. Tax on overseas dividends is accounted for on a receipts basis.

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value. In the case of pooled investment vehicles which are accumulation funds, change in market value also includes income, net of withholding tax, which is reinvested in the fund.

Income arising in foreign currency is translated into Sterling at the exchange rate on the date of the transaction.

2.4 Valuation of investments

Investments are stated at market value:

Pooled Investment Vehicles are stated at bid price or single price where there is no bid/offer spread as provided by the investment managers at the year end.

In the case of property funds included within pooled investment vehicles, these are valued by the investment managers. In the case of property fund of funds, the unit price used by the fund manager is based on the net asset valuations ("NAVs") provided by the underlying fund managers. Where the formal pricing of these funds has been frozen due to lack of liquidity within the property market, the funds have been valued at the year end NAVs provided by the underlying property managers or if not available at an estimate provided by the property fund of fund manager.

ABF has been stated at an estimated fair value as provided by Aon Hewitt. The fair value of the arrangement is based on the net present value of the cash flows expected from the arrangement, with due allowance for credit and illiquidity risk.

2.5 Investment management expenses and fee rebates

Investment management expenses and fee rebates are accounted for on an accruals basis.

3. Contributions

	31 March 2014 £000	31 March 2013 £000
Employers		
Normal	**18,252**	18,040
Other contributions	**15,058**	-
Augmentations	**1,927**	560
Deficit contributions	**5,000**	5,000
Asset Backed Deficit Funding	**198,000**	-
Members		
Normal	**1,218**	1,288
Additional Voluntary Contributions	**336**	317
	239,791	25,205

Deficit contributions of £5 million per annum were paid in May 2013.

Other contributions of £15 million plus interest were received from the escrow account as explained on page 8.

Asset Backed Deficit Funding is a new £198 million facility which is provided via an asset backed funding arrangement.

Deficit contributions paid from the ABF of £12.2 million each year from 1 November 2013 for 25 years in equal monthly instalments and are shown under Asset Backed Funding sales. These contributions increase annually by RPI up to a maximum of 5%.

4. Other income

	31 March 2014 £000	31 March 2013 £000
Other income	**15**	7

5. Benefits

	31 March 2014 £000	31 March 2013 £000
Pensions	**33,762**	32,665
Commutations and lump sum retirement benefits	**5,242**	3,827
Lump sum death benefits	**467**	404
	39,471	36,896

6. Payments to and on account of leavers

	31 March 2014 £000	31 March 2013 £000
Refunds to members leaving service	**(2)**	-
Individual transfers to other schemes	**2,336**	1,747
Transfers out - AVC	**19**	-
	2,353	1,747

Refunds to members leaving service relates to the cancellation of refunds incorrectly accrued in prior periods.

7. Investment income

	31 March 2014 £000	31 March 2013 £000
Dividends from equities	**54**	47
Income from pooled investment vehicles	**3,481**	4,705
Interest on cash deposits	**26**	(93)
Other investment income	**-**	5
	3,561	4,664

Dividends from equities relate to a class action proceeds payment in relation to a claim against the Wellcare Health Plans security.

The negative interest on cash deposits in the prior year is due to a correction of the over-distribution of interest on the Adept cash funds in the previous year.

8. Investments

Movements in investments

	Value at 01/04/2013 £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	Value at 31/03/2014 £000
Pooled investment vehicles	1,540,040	129,081	(126,777)	20,957	1,563,301
Asset backed funding	-	198,000	(4,067)	6,067	200,000
AVC investments	6,626	336	(192)	36	6,806
Sub total	**1,546,666**	**327,417**	**(131,036)**	**27,060**	**1,770,107**
Cash and cash equivalents	18,650				7,266
Dividends and withholding tax	237				637
	1,565,553				**1,778,010**

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £264,263 (2013: £23,620). In addition to the transaction costs disclosed above, indirect costs are incurred through bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Scheme.

The companies managing the managed fund investments are registered in the United Kingdom except for Magnitude Capital £76,514,000 (2013: £72,716,000) which is registered in Canada and Mesirow £36,434,000 (2013: £33,734,000) which is registered in the United States of America.

8. Investments (continued)

Pooled investment vehicles

	31 March 2014 £000	31 March 2013 £000
Unit trusts - property	**106,050**	94,610
Managed funds - other	**1,457,251**	1,445,430
	1,563,301	1,540,040

	31 March 2014 £000	31 March 2013 £000
Other managed funds comprise:		
UK equities	**40,850**	42,588
Overseas equities	**75,175**	70,153
Index-linked gilts	**325,106**	335,975
Gilts	**80,641**	83,218
Hedged equities and gilts	**63,782**	58,679
Fund of hedge funds	**76,514**	72,716
Funds of private equity funds	**43,653**	45,377
Fund of funds	**36,434**	33,734
Alternative funds	**567,953**	557,036
Global equity	**147,143**	145,954
	1,457,251	1,445,430

All investments are held in pooled vehicles. The liquidity of the investments of the Scheme varies across asset classes and according to market conditions, (for example the property portfolio is, by nature, less liquid than the equity holdings). For investments held in the alternative assets portfolio, some specialist investment managers require an initial period where new funds invested cannot be withdrawn, with liquidity thereafter being available only on specific monthly, quarterly or annual dates. Finally, private equity commitments are made at the outset for a ten or fifteen year period. A secondary market does exist for private equity investments but cannot be relied upon to provide liquidity.

Asset Backed Funding

	31 March 2014 £000	31 March 2013 £000
Asset Backed Funding	**200,00**	-

This is a new facility provided via an ABF arrangement through the Scottish Partnership and secured against the assets of AA Brand Management Limited which is the owner of all of the AA Group’s intellectual property.

Cash and cash equivalents

	31 March 2014 £000	31 March 2013 £000
Sterling cash deposits	**6,374**	16,941
Money market deposits in sterling and dollars	**865**	628
Overseas cash deposits	**27**	1,081
	7,266	18,650

AVC investments

The Trustee holds assets which are separately invested from the main fund. These secure additional benefits, on a money purchase basis, for those members who have elected to pay Additional Voluntary Contributions.

Members participating in this arrangement receive an annual statement made up to 31 March each year, confirming the amounts held to their account and movements during the year.

The total amount of AVC investments at the year end is shown below.

	31 March 2014 £000	31 March 2013 £000
Equitable Life	**845**	850
Prudential	**5,961**	5,776
	6,806	6,626

Concentration of investments

The following investments, excluding UK Government securities, account for more than 5% of the Scheme's net assets as at 31 March 2014.

	31 March 2014 Market value £000	%	31 March 2013 Market value £000	%
Legal & General Over 15yr Index-Linked Gilts	**326,106**	**18.3**	335,975	21.4
Hewitt DGF2 & DLF2 Portfolio A05	**254,204**	**14.3**	-	-
Hewitt Main Portfolio A01	**246,886**	**13.9**	-	-
Asset Backed Funding	**200,000**	**11.3**	-	-
Aberdeen Life World Equity Fund	**147,143**	**8.3**	145,954	9.3
Hewitt Adept Strategy 3	**-**	**-**	132,158	8.4
Hewitt Insight LDI Active 25 Fund Class B	**-**	**-**	130,697	8.3
Hewitt Adept Strategy 1	**-**	**-**	102,937	6.6
Legal & General Over 15yr Gilt Index	**-**	**-**	83,218	5.3

9. Investment management expenses

	31 March 2014 £000	31 March 2013 £000
Administration, management and custody	**1,309**	1,208
Investment fee rebate	**(366)**	(402)
	943	806

Fees for investment management are based upon the market values of the portfolios. Investment fee rebates relate to funds held with Aberdeen Asset and Henderson.

10. Current assets and liabilities

	31 March 2014 £000	31 March 2013 £000
Current assets		
Employer contributions due	**1,585**	1,244
Member contributions due	**97**	112
Pensions paid in advance	**2,924**	2,764
Sundry debtor	**91**	84
Cash balances	**15,108**	731
	19,805	4,935
Current liabilities		
Unpaid benefits	**181**	499
Investment managers fees payable	**110**	125
	291	624
Current assets and liabilities	**19,514**	**4,311**

All contributions due to the Scheme relate to the month of March 2014 and were paid in full to the Scheme within the timescale required by the Schedule of Contributions currently in force.

11. Employer related investments

In accordance with the Occupational Pension Schemes (Investment of Scheme's Resources) Regulations 1992, there is no self investment in the employer of the Scheme during the year (that is, no investment in shares, loans or property of the AA or related entities).

12. Related party transactions

During the year the employer paid £2,707,111 (2013: £2,450,472) of administrative costs including PPF levy of £592,886 (2013: £679,446) and Trustee expenses of £2,391 on behalf of the Scheme.

During the year one Trustee Director, Mr P Foster, received a pension from the Scheme and contributions were paid in accordance with the Scheme Rules for four Trustee Directors who are active members of the Scheme; Mr S Dewey, Mr S Douglas, Mr P Hall and Mr S Millman.

The Scheme entered into an ABF arrangement during the year. An amount of £198 million was paid into the ABF which is underpinned by a 25 year loan note backed by royalties payable in respect of the AA's brands.

The Trustee is not aware of any other material related party transactions that require disclosure in the accounts.

13. Contingent liabilities

Other than liabilities to pay pensions, the Scheme had no contingent liabilities (2013: nil).

14. Capital commitments

At the year end, the Scheme had commitments of€8,883,810 (2013: €7,851,291) in relation to Keyhaven and $756,567 (2013: $7,791,540) in relation to Quellos.

Independent Auditors’ statement about contributions to the Trustee of the AA Pension Scheme

For the year ended 31 March 2014

Statement about contributions

Our opinion

In our opinion, the contributions required by the Schedule of Contributions for the Scheme year ended 31 March 2014 as reported in the summary of sontributions have in all material respects been paid in accordance with the Schedules of Contributions certified by the Scheme Actuary on 28 June 2011 and 28 November 2013.

This opinion is to be read in the context of what we say in the remainder of this statement.

What we have examined

The summary of contributions for the Scheme year ended 31 March 2014, which has been prepared by the AA Pension Scheme is set out on the following page.

What an examination of the Summary of Contributions involves

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have been paid in accordance with the relevant requirements. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme under the Schedule of Contributions and the timing of those payments.

Responsibilities for the statement about contributions

Our responsibilities and those of the Trustee

As explained more fully in the statement of Trustee's responsibilities, the Scheme's Trustee is responsible for preparing, and from time to time reviewing and if necessary revising, a Schedule of Contributions and for monitoring whether contributions are made to the Scheme by the Employer in accordance with relevant requirements.

It is our responsibility to provide a statement about contributions and to report our opinion to you.

This report, including the opinion, has been prepared for and only for the Trustee as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Signature: PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading

Date: 24 September 2014

Summary of contributions

For the year ended 31 March 2014

Contributions payable to the Scheme by the employer under the Schedules of Contributions in respect of the year ended 31 March 2014 were as follows:

Contributions payable under the schedules in respect of the Scheme year	£000
Employer normal contributions	18,252
Employer deficit funding old Schedule	5,000
Employer deficit funding new Schedule	5,083
Member normal contributions	1,218
	29,553

Reconciliation to contributions reported in the accounts in respect of the Scheme year	£000
Asset backed deficit funding	198,000
Other contributions	15,058
Augmentations	1,927
Additional Voluntary Contributions	336
Deficit contributions from asset backed funding shown under investment sales	(4,067)
Deficit contributions from asset backed funding disinvested post year end	(1,016)
Total contributions reported in the accounts	239,791

Signed for and on behalf of the Trustee:

Trustee Director: Janet Thomson

Trustee Director: Peter Hall

Date: 24 September 2014

Actuarial Statements

For the year ended 31 March 2014

Actuarial Certificate made for the purposes of Regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

AA Pension Scheme

Calculation of Technical Provisions

I certify that, in my opinion, the calculation of the Scheme's Technical Provisions as at 31 March 2013 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Scheme and set out in the Statement of Funding Principles dated 1 November 2013.

Signature: David Eteen

Date: 28 November 2013

David Eteen
Fellow of the Institute and Faculty of Actuaries

Aon Hewitt Limited
Verulam Point
Station Way
St Albans
Hertfordshire
AL1 5HE

Actuarial Certificate of the Schedule of Contributions

AA Pension Scheme

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of the contributions shown in this Schedule of Contributions are such that the statutory funding objective could have been expected on 31 March 2013 to be met by the end of the period specified in the recovery plan dated 1 November 2013.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 1 November 2013.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were wound up.

Signature: David Eteen

Date: 28 November 2013

David Eteen
Fellow of the Institute and Faculty of Actuaries

Aon Hewitt Limited
Verulam Point
Station Way
St Albans
Hertfordshire
AL1 5HE

Compliance statement

For the year ended 31 March 2014

HM Revenue & Customs approval

The Scheme has been registered as a Pension Scheme in accordance with the Finance Act 2004. This means that the contributions paid by both the Company and the members qualify for full tax relief, and enables income earned from investments by the Trustee to receive preferential tax treatment.

Other information

(i) The Registrar of Pension Schemes

The Trustee is required to provide certain information about the Scheme to the Registrar of Pension Schemes. This has been forwarded to:

The Registrar of Pension Schemes
Whitley Road
Newcastle Upon Tyne
NE98 1BA

(ii) The Pensions Advisory Service

Any member with a concern about the Scheme should first of all contact the Head of Pensions, who will try and resolve the problem as quickly as possible. If however, the concern cannot be resolved via this route then the Pensions Advisory Service Limited (TPAS) exists to assist members and beneficiaries of Schemes in connection with difficulties which they have failed to resolve with the Trustee or administrator of their Scheme. TPAS may be contacted at:

The Pensions Advisory Service
11 Belgrave Road
London
SW1V 1RB

Telephone: 0300 123 1047
Website: **www.pensionsadvisoryservice.org.uk**

(iii) The Pensions Ombudsman

In cases where a complaint or dispute cannot be resolved, usually after the intervention of TPAS, the Pensions Ombudsman may investigate and determine any complaint or dispute of fact or law in relation to an Occupational Pension scheme. Any such complaints should be addressed in the first instance to the Scheme Adjudicator at the following address:

The Office of the Pensions Ombudsman
11 Belgrave Road
London
SW1V 1RB

Telephone: 020 7630 2200
Website: **www.pensions-ombudsman.org.uk**

(iv) The Pensions Tracing Service

The Pensions Tracing Service provides a tracing service for members (and their dependants) of previous employers' schemes, who have lost touch with earlier employers and trustees. To trace a benefit entitlement under a former employer's scheme, enquiries should be addressed to:

Pension Tracing Service
The Pension Service
Tyneview Park
Whitely Road
Newcastle Upon Tyne
NE98 1BA

Telephone: 0845 046 3343
Website: **www.ukpensionhelpdesk.co.uk**

The AA has been registered with the Pensions Tracing Service.

(v) The Pension Protection Fund

This body was established to provide compensation to members of eligible defined benefit pension schemes, when there is a qualifying insolvency event in relation to the employer and where there are insufficient assets in the pension scheme to cover Pension Protection Fund levels of compensation.

The Pension Protection Fund is a statutory fund run by the Board of the Pension Protection Fund, a statutory corporation established under the provisions of the Pensions Act 2004. The Pension Protection Fund became operational on 6 April 2005.

(vi) Trust Deed and Rules

The Trust Deed and Rules, Scheme details, Schedule of Contributions and Statement of Investment Principles are available for inspection by visiting the Scheme's website at **www.AApensions.com** or contacting the Head of Pensions at the address shown for enquiries in this report. A small charge may be levied dependent on the information requested.

Any information relating to the member's own pension position, including estimates of transfer values, should be requested from the Administrator of the Scheme, Aon Hewitt Limited (Aon), at the address detailed on page 3.