

REPORT & FINANCIAL STATEMENTS

2018

Year ended 31 March 2018

AA PENSION SCHEME

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

AA PENSION SCHEME

CONTENTS

	Page
Trustee and its advisers	1 - 2
Trustee's report	3 - 11
Statement of Trustee's responsibilities	12
Independent Auditor's report to the Trustee	13 - 14
Fund account	15
Statement of Net assets (available for benefits)	16
Notes to the financial statements	17 - 31
Independent Auditor's statement about contributions	32
Summary of contributions	33
Actuarial certificate	34

AA PENSION SCHEME

TRUSTEE AND ADVISERS YEAR ENDED 31 MARCH 2018

Trustee	AA Pensions Trustees Limited
Trustee Directors	Employer Nominated Mr S Delo representing PAN Governance LLP - Independent Trustee (Chairman) Mr C Norman Mr B Ryan (resigned 16 February 2018) Mr J Stewart Mr M Sullivan (appointed 15 March 2018 and resigned 31 May 2018) and (reappointed 1 July 2018) Mr R Warner Member Nominated Mr P Foster - Pensioner Mr D Glover (appointed 17 November 2017) Mr S Millman - Active member
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) 5th Floor, Fountain Precinct Balm Green Sheffield S1 2JA
Independent Auditors	Crowe U.K. LLP (formerly Crowe Clark Whitehill LLP)
Banker	HSBC Bank plc (until 23 May 2017) Bank of Scotland plc (appointed 26 April 2017)
AVC Providers	The Prudential Assurance Company Limited The Equitable Life Assurance Society

AA PENSION SCHEME

TRUSTEE AND ADVISERS YEAR ENDED 31 MARCH 2018

Trustee and its advisers (continued)

Investment Managers

Ares Management LLC (appointed 2 May 2018)
BlackRock Investment Management Ltd
BlackRock Private Equity (formerly Quellos Capital Management)
Bluebay Asset Management
Brockton Capital LLP
Clearbell Capital LP
Colombia Threadneedle (formerly Threadneedle Pensions Limited)
DRC Capital LLP (appointed 20 December 2017)
GAM Fund Management Limited (appointed 12 April 2018)
Hewitt Risk Management Services Limited (HRMSL)
Keyhaven Capital Partners
Legal & General Assurance (Pensions Management) Ltd
Magnitude Capital, LLC
Mesirow Advanced Strategies, Inc.
TH Real Estate (formerly Henderson Global Investors)

Secretary to the Trustee Mr Mike Sullivan (resigned 31 May 2018)
Mrs Lorraine Birks (appointed 1 July 2018)

Legal Advisors Hogan Lovells LLP
Squire Patton Boggs
Burness Paull LLP

Data Consultants ITM Limited

Investment Consultants Aon Hewitt Limited
Valuation Consulting LLP

Custodian and Performance Measurer Bank of New York Mellon Corporation (BNYM)

Covenant Adviser RSM Restructuring Advisory LLP

Fiduciary Overseer Hymans Robertson LLP

Principal employer Automobile Association Developments Limited

Contact address Mrs Lorraine Birks
Trustee Services Manager
The AA
Fanum House
Basing View
Basingstoke
Hants, RG21 4EA

AA PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2018

Scheme constitution and management

The Trustee of the AA Pension Scheme (the 'Scheme') is pleased to present its annual report together with the financial statements for the year ended 31 March 2018. The Scheme is a defined benefit scheme and is administered by Aon Hewitt Limited in accordance with the consolidated trust deed dated 31 March 2015 (as subsequently amended) solely for the benefit of its members and other beneficiaries.

The Scheme has five categories of benefits:

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

The Staff and Management sections are closed to new entrants. The CARE Section is also closed to new entrants for any new employees joining after 1 October 2016.

The Trustee Directors' names are included on page 1.

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

The Principal Employer may appoint Trustee Directors and may remove any Trustee Director it has appointed at any time. Member Nominated Trustee Directors are appointed for three years, but can be re-selected 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 4 times over the year and average attendance by the Trustee Directors was 88%. The Trustee has also set up an Audit, Risk and Compliance Committee, Administration Committee, Investment Committee and a Valuation Committee which all met during the year.

Following the year-end Mr Mike Sullivan resigned as Secretary on 31 May 2018. Lorraine Birks was appointed as Secretary on 1 July 2018.

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

AA PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2018

Strength of Employer Covenant

The Trustee monitors the credit rating and financial strength of the AA by having good communication and exchange of information with the AA. The Trustee meets with the Chief Finance Officer or his representative on a six monthly basis. The Trustee's covenant adviser is RSM Restructuring Advisory LLP.

Changes during the year and since the year end

After the year end, the Trustee invested in a "pensioner buy-in" annuity contract from Canada Life Limited, an insurance company, to secure some of the liabilities. This investment is held specifically to provide an accurate hedge against the individual liabilities of part of the Scheme membership.

A Deed of Amendment was executed on 30 June 2017 modifying Rules to the Scheme as follows:

Final Salary Sections

Employees ceased to accrue benefits in all final salary sections on 30 June 2017 and those benefits are treated as deferred benefits.

Future build up of benefits from 1 July 2017 onwards will be in the CARE section.

CARE Section

Employee contributions increased by 1.5% of pensionable pay with effect from 1 July 2017 (unless members elected to change to a different accrual rate and submitted a change form that was received by payroll by 15 August 2017).

Future pension increases, starting from the increase due on 1 April 2018, will be based on Consumer Price Index rather than Retail Price Index.

Additional Voluntary Contributions (AVCs)

AVCs ceased to build up in the Scheme after 30 June 2017. The internal annuitisation of AVC pots on retirement also ceased.

On retirement, no more than 25% of a member's AVC fund (if applicable) can be received as a cash lump sum.

AA PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2018

Membership

Details of the membership of the Scheme as at 31 March 2018 are given below:

	Active members 2018	Pensioners 2018	Members with deferred benefits 2018	Total 2018
Membership at the start of the year	3,985	7,909	14,372	26,266
Adjustments*	(50)	15	37	2
New entrants in the year**	39	-	-	39
New spouses and dependant pensions	-	69	-	69
Retirements	(93)	366	(273)	-
Deaths	(4)	(210)	(21)	(235)
Members leaving with preserved benefits	(286)	-	286	-
Trivial commutations	(2)	(12)	(27)	(41)
Transfers out	(7)	-	(98)	(105)
Leaver - no further liability***	-	(11)	(1,046)	(1,057)
Total membership at the end of the year	3,582	8,126	13,230	24,938

	Active members	Pensioners	Deferred members	Total 2018
Staff	-	7,781	10,647	18,428
Management Section 1	-	53	189	242
Management Section 2	-	105	68	173
Management Section 3	-	-	6	6
CARE	3,573	187	2,329	6,089
Total	3,573	8,126	13,239	24,938

*Adjustments to members include movements notified to the Administrator after the completion of the annual renewal.

**There were 39 new joiners to the CARE section of the Scheme.

The rules / member booklet confirms that the CARE section is only closed to new employees to the AA and not new joiners to the Scheme that joined the company pre October 2016, although joining the Scheme more than 12 months after joining the Company requires Employer agreement.

***During the year a project was completed that identified pended members that had no further liability in the Scheme and as such their records were closed.

Included in the number of pensioners above are 1,357 (2017: 1,363) dependants in respect of the following sections:

CARE	38
Staff	1,315
Management Section 1	4
Total	1,357

AA PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2018

Pension increases

Pensions in payment are increased in April each year in line with the increase in the Retail Prices Index 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 2013	2.6 on pre 1 July 2010 accrued pension;	2.5 on post 1 July 2010 accrued pension
April 2014	3.2 on pre 1 July 2010 accrued pension;	2.5 on post 1 July 2010 accrued pension
April 2015	2.3 on pre 1 July 2010 accrued pension;	2.3 on post 1 July 2010 accrued pension
April 2016	0.8 on pre 1 July 2010 accrued pension;	0.8 on post 1 July 2010 accrued pension
April 2017	2.0 on pre 1 July 2010 accrued pension;	2.0 on post 1 July 2010 accrued pension

As the Retail Prices Index was less than 5% for the purposes of the April 2017 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 Retail Prices Index or Consumer Prices Index in accordance with the Scheme rules.

There were no discretionary increases in the year.

Different levels of pension increase, in excess of Guaranteed Minimum Pension, are awarded to pensioners whose service accrued in Jersey and Guernsey:

Jersey	
Pre 23 September 1999:	2% increase on 1 April 2017 (Jersey cost of living index at 0%)
Post 23 Sept 1999:	2% increase on 1 April 2017 (Jersey cost of living index capped at 5% and floored at 0%)
Guernsey	
Pre 23 September 1999:	0.9% increase on 1 April 2017 (Guernsey retail price index floored at 0%)
Post 23 Sept 1999:	0.9% increase on 1 April 2017 (Guernsey retail price index capped at 5% and floored at 0%)

Review of Financial Development of the Scheme

The financial statements on pages 15 to 31 show that the value of the Scheme's assets increased by £51,685,000 to £2,550,512,000 as at 31 March 2018. The net increase comprised an increase in the value of investments of £96,027,000 less net withdrawals from dealing with members of £ 44,342,000.

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).

AA PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2018

Report on Actuarial liabilities

As required by Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS 102), the financial statements do not include liabilities in respect of promised retirement benefits.

Under the current SORP for pension scheme accounts the Trustee is required to include a report on the actuarial liabilities in the Fund at a recent date, although it is not expected to commission a new valuation for this purpose. The Actuary has set out below a draft report for this purpose for the accounts as at 31 March 2018 which has been based on calculations the Actuary had provided to the Trustee. It should not be used for any other purpose.

The most recent triennial actuarial valuation of the Scheme was carried out as at 31 March 2016. All figures quoted exclude AVCs from both the assets and liabilities.

The value of the Technical Provisions was:	£2,201 million
The value of the assets was:	£1,835 million
As a percentage of Technical Provisions	83%

Although there are no current plans to discontinue the Scheme and buy-out liabilities with an insurance company, the Trustee also considers the level of funding relative to the estimated costs of such a buy-out (known as "solvency liabilities") at the valuation date.

Value of solvency liabilities	£4,013M
Value of assets available to meet solvency liabilities	£1,835M
As a percentage of solvency liabilities	46%

The Scheme also carried out an actuarial assesment as at 31 March 2017 and the results are shown below:

The value of the Technical Provision was:	£2,615 million
The value of Assest was:	£2,254 million
As a percentage of Technical Provision:	86 %

The value of Technical Provisions is based on Pensionable Service to the valuation date and assumptions about various factors that will influence the Scheme in the future, such as the levels of investment returns and pay increases, when members will retire and how long members will live. The method and significant actuarial assumptions used in the calculations are as follows:

Method

The actuarial method to be used in the calculation of the Technical Provisions is the Projected Unit Method.

Significant actuarial assumptions

Pre-retirement discount rate: The term dependent rates on the Aon Hewitt gilt yield curve based on the Bank of England gilt yield curve at the actuarial valuation date plus 2.75% p.a.

Post-retirement discount rate: The term dependent rates on the Aon Hewitt gilt yield curve based on the Bank of England gilt yield curve at the actuarial valuation date.

Future retail price inflation: The term dependent rates on the Aon Hewitt RPI yield curve based on the Bank of England RPI curve. No allowance is made for any inflation risk premium.

Future consumer price inflation: The assumption is derived at the actuarial valuation date by deducting 1.1% p.a. from the RPI inflation assumption.

AA PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2018

The difference between the long term assumption for RPI and CPI inflation may vary over time to reflect changing views of long term structural differences between the calculation of RPI and CPI inflation at the date subsequent calculations are carried out.

Pension increases: Inflation-linked pension increase assumptions are derived from the RPI inflation assumption (except in respect of post 5 April 1988 GMP which is derived from the CPI inflation assumption) on the advice of the Scheme Actuary, allowing for the maximum and minimum annual increase, and the fact that inflation varies from year to year.

Pay increases: Each member's salary is assumed to increase in line with the assumed rate of RPI inflation plus 1.1% p.a. together with an allowance for promotional increases.

However, active members' benefits accrued up to 30 June 2010 are assumed to increase in future in line with deferred revaluations rather than salary increases. Benefits accrued after 30 June 2010 are assumed to increase each year in line with increases in salaries but subject to individual member-specific pensionable salary caps that apply on a year by year basis (and work in a similar way to the earnings cap). Note that pensionable salary caps were introduced on 1 July 2010 and were set equal to each member's Final Pensionable Earnings as at 30 June 2010 with an uplift of 2.5% or 3% depending on member election.*

Pensionable salary caps are increased at each 1 April at either 2.5% or 3% depending on member selection.

Mortality: for the period in retirement, 100% of standard tables S2PMA for male members and S2PFA for female members, adjusted for year of birth with an allowance for improvements between 2007 and 2015.

An allowance for future improvements has been made in line with the CMI_2015 Core Projections assuming a long-term annual rate of improvement in mortality rates of 1.5% for men and women.

These arrangements were formalised in a schedule of contributions which the Scheme Actuary certified on 16 June 2017. A copy of this certificate is included on page 34 of the annual report.

*This assumption reflected the approach agreed for the purposes of Technical Provisions for the 2016 actuarial valuation. Subsequent to this actuarial valuation accrual in the final salary sections ceased on 30 June 2017 and those benefits are treated as deferred benefits.

Next actuarial valuation

The next triennial valuation will be performed as at 31 March 2019.

Contributions

Contributions received from members and participating employers were in accordance with the Schedule of Contributions for the year ended 31 March 2018.

Transfer values

All transfer values paid during the year were calculated and verified in accordance with regulations made under the Pension Scheme Act 1993. 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.

AA PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2018

Further information

Further information about the Scheme is available, on request, to members and prospective members, their spouses and other beneficiaries together with all recognised trade unions. In particular, the documents constituting the Scheme, the Rules and a copy of the latest actuarial report and the Trustee's Statement of Investment Principles can be inspected.

Individual benefit statements are provided 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 are available free of charge once a year. If members have any queries concerning the Scheme's or their own pension position, or wish to obtain further information, they should contact Aon Hewitt Limited who will also be able to provide them with a further copy of the Scheme's booklet should they require one and answer any queries that they may have about entitlement to benefits.

AA Pension Scheme
Aon Hewitt
PO Box 196
Huddersfield
HD8 1EG
Email: aa.pensions@aon.com

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

Lorraine Birks
Trustee Services Manager
The AA
Fanum House
Basing View
Basingstoke
Hants
RG21 4EA
Email: pensions@theaa.com

The Trustee and Aon Hewitt Limited take the matter of protecting your personal information seriously. Further details can be found at www.aapensions.com/privacy-policy.

AA PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2018

Investment strategy and principles

The Trustee is responsible for determining the Scheme's investment strategy.

In accordance with section 35 of the Pensions Act 1995, the Trustee has agreed a Statement of Investment Principles ("SIP") which was last revised in February 2017. A copy of the SIP may be obtained from the contact for enquiries on page 2.

The benchmark asset allocation was updated on 1 February 2017 when the allocation to listed equities, index linked gilts and hedge funds was reduced marginally and the allocation increased to property. In December 2017 the Scheme appointed DRC Capital, adding property debt to its portfolio.

The Trustee sets the investment strategy taking into account considerations such as the strength of the employer covenant, the long term liabilities, the level of overall risk (called Value at Risk) and the funding agreed with the Employer. The Investment strategy is set out in its Statement of Investment Principles ("SIP").

The investment strategy at 31 March 2018 is to hold:

- 35.5% in a diversified portfolio of pooled funds which hold return seeking investments comprising UK and overseas equities, UK commercial property, property debt, hedge funds, multi asset credit, property debt and private equity.
- 14% in UK Government gilts and index linked gilts, where the market value moves in line with the long term liabilities of the Scheme, the purpose of which is to hedge against the impact of interest rate movement and inflation on long term liabilities.
- 50% in a delegated investment portfolio where the investment manager (HRMSL) invests in a diversified portfolio of pooled funds which hold return seeking investments comprising UK and overseas equities, investment property, hedge funds, various credit instruments, infrastructure and liability hedging investments. The market value of the liability hedging assets moves in line with the actuarial value of the long term liabilities of the Scheme, as their purpose is to hedge against the impact of adverse movements in interest rates and inflation on the Scheme's funding position.
- 0.5% in cash to meet pension payments.

Management and custody of investments

The Trustee has delegated management of investments to professional investment managers which are listed on page 2. These managers, which are regulated by regional financial regulators, manage the investments within the restrictions set out in investment management agreements which are designed to ensure that the Trustee's investment objectives and policies set out in the SIP are followed.

The Trustee has less influence over the underlying investments within pooled investment vehicles held by the Scheme but reviews the managers' policies and statements of compliance with respect to active voting participation and consideration of social, ethical and environmental factors when making investment decisions.

The Trustee has appointed BNYM to keep custody of the Scheme's investments other than pooled investment vehicles where the manager makes its own arrangements for custody of underlying investments.

AA PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2018

Investment Performance

The Trustee assesses the performance of the Scheme's investments by reference to benchmarks and performance targets set and agreed with each manager. The Trustee receives monthly reports from its performance measurer (BNYM) showing actual performance by manager and fund. Investment managers regularly present to the Investment Committee (IC), to report on compliance with their agreements and to be questioned by the IC members. Performance of the Scheme's investments over short and longer periods to 31 March 2018 is summarised as follows:

Period	Scheme return (%)	Benchmark return (%)
1 year	4.9	3.2
3 years	9.7	4.7
5 years	9.9	4.8

The principal economic factors which have affected the benchmarks against which performance is compared over the year to 31 March 2018 were as follows:

- Global equities continued on an upward trend over most of the last year but momentum was abruptly halted in the first quarter of 2018. Equity markets fell on worries about rising bond yields and growing trade tension. Over the last twelve months, the MSCI AC World index was up 11.2% in local currency terms.
- The US Federal Reserve (Fed) hiked the Federal Funds rate on three separate occasions, reaching 1.50%-1.75% in March 2018 and began to unwind its quantitative easing (QE) programme purchases. The Bank of England (BoE) voted to raise rates in November 2017 to 0.5%. The European Central Bank (ECB) also scaled back its monthly bond purchases but extended the duration. In contrast, loose monetary policy continued to be pursued by the Bank of Japan (BoJ).
- UK fixed interest gilt yields rebounded at the shorter end of the curve on the back of higher policy rates and inflation expectations. However, ongoing Brexit uncertainty and a weak UK government after the inconclusive general election result have anchored longer gilt yields. Consequently, the UK gilt yield curve has flattened over the year. Both fixed interest and index-linked gilts returned 0.5% over the last twelve months. UK investment grade corporate bond spreads narrowed by only 0.02% to end the twelve month period at 1.26%. Spreads were on a downward trend for most of the period until the recent market volatility sparked risk-off behaviour and spread widening.
- UK commercial property posted double-digit returns as the recovery in capital values continued after the shockwave caused by the EU referendum in 2016 and as the economy proved resilient. The IPD Monthly Index returned 11.0% over the year.
- Sterling proved to be resilient despite a weakened UK government and Brexit related uncertainty. The failure by the Conservative party to secure a majority in June general elections caused mid-year sterling weakness. However, an increase in the bank base rate in November boosted the pound. Toward the end of the period, the conditional agreement for a transition Brexit period provided some further impetus for sterling with substantially more time for both parties to settle on a new relationship. The US dollar was down 7.5% on a trade-weighted basis and 10.9% against sterling over the year.

The Trustee has considered the nature, disposition, marketability, security and valuation of the Scheme's investments and considers them to be appropriate relative to the reasons for holding each class of investment. More details about the investments are given in the notes to the financial statements.

AA PENSION SCHEME

STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102) are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- 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 the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

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

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 them 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 responsible under pensions legislation for preparing, maintaining 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 adopting risk-based processes to monitor 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 the members.

Signed for and on behalf of the Trustee:

Trustee Director:

Trustee Director:

Date:

AA PENSION SCHEME

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE

Independent auditor's report to the Trustee of the AA Pension Scheme

We have audited the financial statements of the AA Pension Scheme ("the Scheme") for the year ended 31 March 2018 which comprise the Fund Account, the Statement of Net Assets and the related notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Scheme's Trustee, as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 March 2018, 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 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Trustee has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Scheme's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

AA PENSION SCHEME

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE

Other information

The Trustee is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Trustee

As explained more fully in the statement of Trustee's responsibilities set out on page 12, the Trustee is responsible for the preparation of the financial statements, for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to wind up the Scheme or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Crowe U.K. LLP
Statutory Auditor
London

Date:

AA PENSION SCHEME

FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2018

	Note	2018 £000	2017 £000
Employee contributions	3	1,386	1,792
Employer contributions	4	28,883	19,143
Total Contributions		30,269	20,935
Other income	5	77	29
		30,346	20,964
Benefits paid or payable	6	(48,370)	(44,622)
Payments to and on account of leavers	7	(26,317)	(8,092)
Administrative expenses	8	(1)	(3)
		(74,688)	(52,717)
Net withdrawals from dealings with members		(44,342)	(31,753)
Returns on investments			
Investment income	9	5,893	4,866
Change in market value of investments	10	91,147	447,509
Investment management expenses	16	(1,013)	(710)
Net returns on investments		96,027	451,665
Net increase in the fund during the year		51,685	419,912
Opening net assets		2,498,827	2,078,915
Closing net assets		2,550,512	2,498,827

The notes on pages 17 to 31 form an integral part of these financial statements.

AA PENSION SCHEME

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS) AS AT 31 MARCH 2018

	Note	2018 £000	2017 £000
Investment assets			
Pooled investment vehicles	11	2,298,154	2,215,282
Asset backed funding	12	230,200	237,600
AVC investments	14	7,480	7,747
Cash and cash equivalents	13	3,356	27,947
Accrued investment income	10	606	138
Cash in transit	10	99	50
		<hr/>	<hr/>
Total investments		2,539,895	2,488,764
		<hr/>	<hr/>
Current assets	19	11,434	10,845
Current liabilities	20	(817)	(782)
		<hr/>	<hr/>
Total net assets available for benefits		2,550,512	2,498,827
		<hr/> <hr/>	<hr/> <hr/>

The financial statements 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 report on actuarial liabilities of the Scheme on pages 7 and 8 of the Trustee's Report and these financial statements should be read in conjunction with them.

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

Trustee Director:

Trustee Director:

Date:

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

1. BASIS OF PREPARATION

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard (FRS) 102 - The Financial Reporting Standard applicable in the UK and Republic of Ireland, issued by the Financial Reporting Council ("FRS 102), and with the guidance set out in the Statement of Recommended Practice "Financial Reports of Pension Schemes" (revised November 2014) ("the SORP").

2. ACCOUNTING POLICIES

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

2.1 Accruals concept

The accounts have been prepared on an accruals basis.

2.2 Currency

The Scheme's functional currency and presentational currency is pounds sterling (GBP).

2.3 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.

Augmentations 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. Lump sum retirement benefits are accounted for by reference to the later of the date of retirement or leaving the Scheme and the date the option is exercised.

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

2. ACCOUNTING POLICIES (continued)

2.4 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.

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.

2.5 Transfers to other schemes

Individual transfer values have been included in the financial statements when paid at values determined by the Actuary advising the Trustee. They do not take account of members who have notified the Scheme of their intention to transfer. They represent the capital sums paid to other pension schemes for members who have left the Scheme.

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

2. ACCOUNTING POLICIES (continued)

2.6 Valuation of investments

Investments are stated at fair 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 private equity investments, these are valued by the investment managers using the International Private Equity and Venture Capital Guidelines. These are valued at the year end, or if a valuation is not available as at the year end, at the latest valuation available adjusted for known cash movements.

Fund of hedge funds, are included at the valuation provided by the independent third party administrator appointed by the Investment Manager in accordance with generally accepted principles within the hedge funds industry.

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 ("NAV's") 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.

The Asset Backed Funding (ABF) has been stated at an estimated fair value. 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 and the funding level of the Scheme. An independent valuation has been undertaken at the year end date by the Scheme Actuary.

ABF sales are in respect of receipts generated by the underlying asset and are accounted for on an accruals basis.

2.7 Investment management expenses and fee rebates

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

2.8 Taxation

The Scheme is a registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax.

3. EMPLOYEE CONTRIBUTIONS

	2018 £000	2017 £000
Normal	1,282	1,496
Additional voluntary contributions	104	296
	<u>1,386</u>	<u>1,792</u>

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

4. EMPLOYER CONTRIBUTIONS

	2018 £000	2017 £000
Normal	20,883	18,489
Augmentations	-	654
Deficit contributions	8,000	-
	<u>28,883</u>	<u>19,143</u>

Under the Schedule of Contributions deficit funding contributions were payable monthly by the Employer at a rate of £1,017k subject to annual increase, giving monthly rate of £1,104k per month until June 2017.

The Schedule specifies that these contributions be offset against monthly payments received by the Scheme from the Asset Backed Funding Investment (see note 10).

From July 2017 deficit contributions increased to £1,993k as they include £889k per month payable until March 2018.

From April 2018 up to and including March 2019, monthly deficit contributions will increase by £0.7m.

From April 2019 up to and including March 2021, monthly deficit contributions will increase by £0.9m, increased from April 2020 by RPI up to a maximum of 5% per annum and a minimum of 0%.

From April 2021 up to and including June 2026, monthly deficit contributions will increase by £1.1m, increased each April by RPI up to a maximum of 5% and minimum of 0%.

5. OTHER INCOME

	2018 £000	2017 £000
Other income	<u>77</u>	<u>29</u>

6. BENEFITS PAID OR PAYABLE

	2018 £000	2017 £000
Pensions	38,438	36,677
Commutations and lump sum retirement benefits	9,321	7,397
Lifetime allowance taxation	14	-
Death benefits	597	548
	<u>48,370</u>	<u>44,622</u>

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2018 £000	2017 £000
Transfers out - individual	<u>26,317</u>	<u>8,092</u>

8. ADMINISTRATIVE EXPENSES

	2018 £000	2017 £000
Bank Charges	<u>1</u>	<u>3</u>

9. INVESTMENT INCOME

	2018 £000	2017 £000
Income from pooled investment vehicles	5,725	3,812
Interest and income received on cash deposits and cash equivalents	168	1,054
	<u>5,893</u>	<u>4,866</u>

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

10. INVESTMENTS

MOVEMENTS IN INVESTMENTS

	Value at 01/04/2017	Purchases at cost	Sales proceeds	Change in market value	Value at 31/03/2018
	£000	£000	£000	£000	£000
Pooled investment vehicles	2,215,282	43,452	(45,461)	84,881	2,298,154
Asset backed funding	237,600	-	(13,221)	5,821	230,200
AVC investments	7,747	379	(1,091)	445	7,480
	<u>2,460,629</u>	<u>43,831</u>	<u>(59,773)</u>	<u>91,147</u>	<u>2,535,834</u>
Cash and cash equivalents	27,947				3,356
Accrued investment income	138				606
Cash in transit	50				99
	<u>2,488,764</u>				<u>2,539,895</u>

Income is received from the ABF of £12.2m each year from 1 November 2013 for 25 years in equal monthly instalments and is shown under ABF sales. This income increases annually by RPI up to a maximum of 5% per annum.

Payments totalling of £13.2m have been received in this Scheme year.

There are no transactions costs in the year to 31 March 2018 (2017: £nil), indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles, the amount of indirect costs is not separately provided in the Scheme.

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

11. POOLED INVESTMENT VEHICLES

	2018 £000	2017 £000
Equity	149,080	144,310
Bond	421,169	425,775
Property	158,713	139,213
Private equity funds	79,984	78,976
Other - delegated investment fund	1,228,944	1,180,276
Fund of hedge funds	260,264	246,732
	<u>2,298,154</u>	<u>2,215,282</u>

The delegated investment fund is managed by Hewitt Risk Management Services Limited and invests in a diversified range of pooled funds which hold equities, bonds, property, infrastructure, hedge funds, derivatives and liability hedging investments. The Scheme is the sole investor in this fund. A breakdown of the underlying assets at the year end is set out below.

	2018 £000	2017 £000
Equities	240,793	213,746
Bonds	88,497	128,302
Hedge Funds	294,086	242,982
Opportunities Portfolio - multi asset	42,267	41,109
Emerging Market Equities	52,450	23,577
Emerging Market Bonds	83,071	26,454
Property	106,385	90,506
Equity Derivatives	-	21,231
Cash	2,139	2,414
LDI Investments	319,256	389,955
	<u>1,228,944</u>	<u>1,180,276</u>

12. ASSET BACKED FUNDING

	2018 £000	2017 £000
Asset backed funding	<u>230,200</u>	<u>237,600</u>

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

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

13. CASH AND CASH EQUIVALENTS

	2018 £000	2017 £000
Sterling cash deposits	1,374	19,546
Money market deposits	1,982	8,401
	3,356	27,947

14. 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 had 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:

	2018 £000	2017 £000
Equitable Life	703	696
Prudential	6,777	7,051
	7,480	7,747

15. 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 2018.

	2018		2017	
	Market value £000	%	Market value £000	%
Hewitt Main Portfolio A01	1,228,944	48.2 %	1,180,276	47.3 %
Legal & General Over 15yr Index-Linked Gilts Fund	334,234	13.1 %	330,321	13.2 %
Asset Backed Funding	230,200	9.0 %	237,600	9.5 %
	1,793,378		1,748,197	

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

16. INVESTMENT MANAGEMENT EXPENSES

	2018 £000	2017 £000
Administration, management & custody	1,269	1,529
Investment fee rebate	(256)	(819)
	<u>1,013</u>	<u>710</u>

Investment management expenses disclosed above do not include monthly fees and any annual performance fee payable to Hewitt Risk Management Services Limited in respect of the delegated investment fund (see note 11). These fees are deducted from cash within the fund and are therefore reflected in the change in market value of pooled investment vehicles. The base fees payable during the year amounted to £1,800,131 (2017: £1,603,979) and the performance fee that became payable during the year amounted to £1,412,956 (2017: nil).

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

17. FAIR VALUE

The fair value of finance instruments has been estimated using the following fair value hierarchy:

- Level 1: The unadjusted quoted price in an active market for an identical asset or liability that the entity can access at the measurement date;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e developed using market data) for the asset or liability either directly or indirectly;
- Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

	At 2018			Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
Pooled investment vehicles	-	570,249	1,727,905	2,298,154
Asset backed funding	-	-	230,200	230,200
AVC investments	-	-	7,480	7,480
Cash and cash equivalents	3,356	-	-	3,356
Accrued investment income	606	-	-	606
Cash in transit	99	-	-	99
	4,061	570,249	1,966,585	2,539,895

	At 2017			Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
Pooled investment vehicles	-	570,085	1,645,197	2,215,282
Asset backed funding	-	-	237,600	237,600
AVC investments	-	-	7,747	7,747
Cash and cash equivalents	27,947	-	-	27,947
Accrued investment income	138	-	-	138
Cash in transit	50	-	-	50
	28,135	570,085	1,890,544	2,488,764

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

18. INVESTMENT RISK

FRS102 requires the disclosure of information in relation to certain investment risks.

Credit risk: This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: This comprises currency risk, interest rate risk and other price risk.

- **Currency risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- **Interest rate risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- **Other price risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.
- **Illiquidity Risk:** this is the risk that an asset is not readily realisable very quickly to meet unforeseen expected cashflow requirements.

The Trustee determines its investment strategy after taking advice from a professional investment adviser. The Scheme has exposure to these risks because of the investments it makes in following the investment strategy below. The Trustee manages investment risks taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustee by regular reviews of the investment portfolio.

Investment Strategy

The investment objective is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits payable under the Trust Deed and Rules as they fall due.

Further details can be found on page 10 of the Trustee's Report.

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

18. INVESTMENT RISK (continued)

(i) Credit risk

Credit risk arising on bonds is mitigated by investing in pooled investment vehicles holding index linked gilts (£334.2m) (2017: £330.3m) and gilts (£86.9m) (2017: £95.5m), where the credit risk is minimal. The Scheme's investment in a pooled total return diversified credit fund (£92.1m) (2017: £85.1m), property debt fund (£9.5m) (2017: Nil) and investments with the delegated investment manager (HRMSL) totaling £1,228.9m (2017: £1,180.3m), of which £256.9m (2017: £185.2m) was invested in pooled credit funds, exposes it to indirect credit risk in relation to publicly traded bonds and privately agreed credit arrangements held in these pooled investment vehicles.

Direct credit risk arises from the Scheme's investments in pooled investment vehicles, as there is the possibility that the pooled fund managers will fail to discharge their obligations to investors. This risk is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled fund manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Trustee carries out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitors any changes to the operating environment of the pooled manager. Within the delegated portfolio, HRMSL carries out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitors any changes to the operating environment of a pooled manager. Pooled investment arrangements used by the Scheme primarily comprise unit linked insurance contracts and authorised unit trusts.

Indirect credit risk arises in relation to underlying investments held in the credit pooled investment vehicle. This risk is mitigated by investing in funds which are well diversified in terms of credit instrument, region, credit rating and issuer. Indirect credit risk arises in relation to exposure via HRMSL to underlying bond and liability matching pooled investment vehicles. This risk is mitigated through the underlying exposures on an aggregate basis being predominantly investment grade credit securities; however they may invest in debt securities which may be unrated by a recognised credit rating agency or below investment grade and which are subject to greater risk of loss of principal and interest than higher-rated debt securities. The funds may also invest in debt securities which rank junior to other outstanding securities and obligations of the issuer, all or a significant portion of which may be secured on substantially all of that issuer's assets. The funds may invest in debt securities which are not protected by financial covenants or limitations on additional indebtedness. Risk is mitigated by holding a diverse portfolio of investments with exposure to a range of issues and issuers.

Cash is held by HRMSL and BNYM within financial institutions which are at least investment grade credit rated.

There is also credit risk associated with the Asset Backed Funding arrangement (ABF) not being able to make coupon payments as required by the terms of the ABF. This is mitigated in part by the ABF being backed by the Employer's brand and by the legal structure of the ABF.

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

18. INVESTMENT RISK (continued)

(ii) Currency risk

Indirect currency risk arises because some of the Scheme's investments (£399.4m) (2017: £329.3m) are held in overseas markets via pooled investment vehicles. The Trustee has an informal target to hedge c.50% of the currency risk associated with the non delegated assets. Of the Scheme's investments with HRMSL c.£18.4m (2017: £12.7m) are held in pooled investment vehicles denominated in overseas currencies.

HRMSL may enter into currency exchange transactions and/or use techniques and instruments to seek to protect against fluctuation in the relative value of its portfolio positions as a result of changes in currency exchange rates between the trade and settlement dates of specific securities transactions or anticipated securities transactions.

(iii) Interest rate risk

The Scheme is subject to interest rate and inflation risk because some of the Scheme's investments are held in gilt funds (£86.9m) (2017: £95.5m) and index linked gilt funds (£334.2m) (2017: £330.3m) and through HRMSL investments held in leveraged gilts, gilt funds and swaps, through pooled vehicles, and cash. These investments (£319.3m) (2017: £390m) are held in order to mitigate the impact of interest rate and inflation changes on the Scheme's funding position. If interest rates fall the value of these funds will rise to help offset some of the increase in actuarial liabilities because of a decrease in the discount rate. The Scheme also has some exposure to pooled bond investment vehicles – a multi asset credit fund (£92.1m) (2017: £85.1m) and via the delegated manager (£171.6m) (2017: £161.6m) where the market values could fluctuate from interest rate changes.

(iv) Other price risk

Other price risk arises principally in relation to the underlying assets in the Scheme's return seeking portfolio which is held in pooled vehicles directly or through HRMSL as shown below:

	2018	2017
	£	£
Global Equities	442m	444m
Return Seeking Bonds and other credit strategies	263m	262m
Hedge Funds	397m	405m
Infrastructure	17m	17m
Private Equity	27m	35m
Property and Property Debt	266m	233m

This exposure to overall price movements is managed by constructing a diverse portfolio of investments across various markets.

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

19. CURRENT ASSETS

	2018 £000	2017 £000
Employer contributions due	2,640	1,800
Member contributions due	103	124
Prepayments - pensions paid in advance	2,998	2,843
Cash balances	5,693	6,078
	<u>11,434</u>	<u>10,845</u>

All contributions due to the Scheme relate to the month of March 2018 and were paid in full to the Scheme within the timescale required by the Schedule of Contributions currently in force.

20. CURRENT LIABILITIES

	2018 £000	2017 £000
Unpaid benefits	625	649
Investment managers fees payable	179	133
HM Revenue & Customs	13	-
	<u>817</u>	<u>782</u>

21. EMPLOYER RELATED INVESTMENTS

In accordance with the Occupational Pension Schemes Investment Regulations (2005) there is no direct 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 has taken legal advice to confirm that the ABF is not an Employer related investment.

22. RELATED PARTY TRANSACTIONS

During the year the Employer paid £2,878,080 (2017: £3,520,377) of administrative costs including PPF levy of £683,678 (2017: £679,504) and Trustee expenses of £2,091 (2017: £1,393) which related to the operation 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 six current or former Trustee Directors who are or were active members of the Scheme; Mr S Millman, Mr C Norman, Mr R Warner, Mr M Sullivan, Mr D Glover and Mr J Stewart.

The Scheme entered into an ABF arrangement during the year ended 2014. An amount of £198m 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. Income is received from the ABF of £12.2m each year for 25 years in equal monthly installments increasing annually by RPI up to a maximum of 5%. The current value is £230m.

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

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

23. CAPITAL COMMITMENTS

		As at 31 March 2018		As at 31 March 2017	
	Currency	Total commitment	Amount remaining to drawdown	Total commitment	Amount remaining to drawdown
Keyhaven	€	37,000,000	3,326,263	37,000,000	4,022,792
BlackRock Quellos	\$	49,023,250	2,543,645	49,023,250	2,047,362
Brockton Capital	£	40,000,000	34,802,438	40,000,000	24,000,000
Clearbell capital	£	80,000,000	39,304,500	80,000,000	49,020,500
DRC Capital	£	40,000,000	40,000,000	-	-
Bluebay Asset Management	£	30,000,000	30,000,000	-	-

All distributions received by the Scheme which are recallable are reflected in the above capital commitments note.

The outstanding commitment to Brockton Capital increased during the year following a return of capital contributions previously paid by the Scheme.

24. POST YEAR END EVENTS

After the year end, the Trustee invested in a "pensioner buy-in" annuity contract from Canada Life Limited, an insurance company, to secure some of the liabilities. This investment is held specifically to provide an accurate hedge against the individual liabilities of part of the Scheme membership.

AA PENSION SCHEME

INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS FOR THE YEAR ENDED 31 MARCH 2018

Statement about contributions

We have examined the summary of contributions payable to the AA Pension Scheme ("the Scheme"), for the year ended 31 March 2018 which is set out on page 33.

In our opinion contributions for the year ended 31 March 2018 as reported in the summary of contributions and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Actuary on 16 June 2017.

Basis of opinion

Our objective is to obtain sufficient evidence to give reasonable assurance that contributions reported in the attached summary of contributions have in all material respects been paid at least in accordance with the Schedule of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedule of Contributions.

Responsibilities of the Trustee

As explained more fully in the Statement of Trustee's Responsibilities, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions which sets out the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the Employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the Employer in accordance with the Schedule of Contributions.

Auditor's responsibilities for the statement about contributions

It is our responsibility to provide a Statement about Contributions paid under the Schedule of Contributions and to report our opinion to you.

Use of our statement

This statement is made solely to the Scheme's Trustee, as a body, in accordance with The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to them in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee as a body, for our work, for this statement, or for the opinion we have formed.

Crowe U.K. LLP
Statutory Auditor
London

Date:

AA PENSION SCHEME

SUMMARY OF CONTRIBUTIONS FOR THE ENDED 31 MARCH 2018

Summary of Contributions payable during the Scheme year ended 31 March 2018

Contributions payable to the Scheme by the employer under the Schedule of Contributions in respect of the year ended 31 March 2018 were as follows:

Contributions payable under the Schedule in respect of the Scheme year	£'000
Employer normal contributions	20,883
Employer deficit funding	21,221
Member normal contributions	<u>1,282</u>
	<u>43,386</u>
Reconciliation to contributions reported in the financial statements in respect of the Scheme year	
Contributions payable under the Schedule (as above)	43,386
Additional voluntary contributions	104
Deficit contributions from asset backed funding shown under investment sales	<u>(13,221)</u>
Total contributions reported in the financial statements	<u><u>30,269</u></u>

Signed for and on behalf of the Trustee:

Trustee Director:

Trustee Director:

Date:

AA PENSION SCHEME

ACTUARIAL CERTIFICATE

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 2016 to be met by the end of the period specified in the recovery plan dated 7 June 2017.

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 7 June 2017.

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 **16 June 2017**

David Eteen

Fellow of the Institute and Faculty of Actuaries

Aon Hewitt Limited

Verulam Point
Station Way
St Albans
AL1 5HE