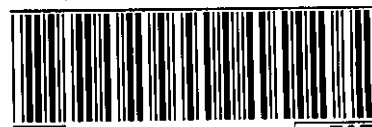


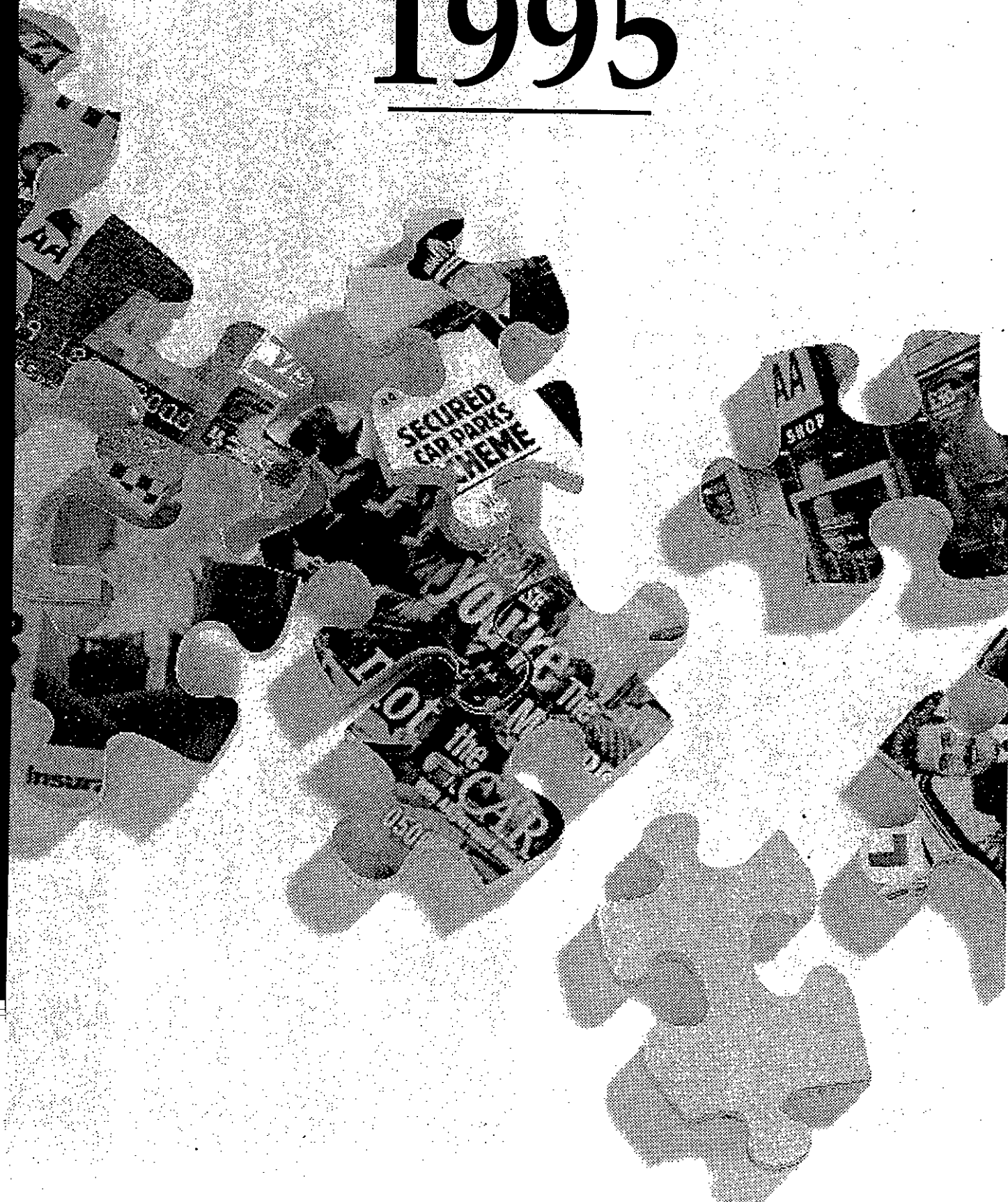


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Annual Report and Accounts 1995



President

HRH The Duke of Kent KG GCMG GCVO ADC

Past President

HRH The Duke of Edinburgh KG KT OM

Vice-Presidents

Sir Peter Baldwin KCB MA FCIT (Hon) FIHT CIMgt

Sir Ralph Carr-Ellison TD DCL

Committee

Chairman: Sir Brian Shaw MA FCIT CIMgt

Vice-Chairman: Sir John Blelloch KCB BA

Lieut General Sir Norman Arthur KCB DL *Pete Johnson BA MTech

Ann Burdus BA Sir Kenneth Newman GBE KStJ QPM LLB CIMgt

*Bob Chase FCA MCT Michael Pickard FCA CIMgt

The Rt Hon the Lord Crickhowell PC MA *Kerry Richardson

*John Dawson FIHT FICE *Frank Thackwray

*Mark Haszlkiewicz MA CA The Rt Hon the Baroness Wilcox

Sir Brian Jenkins GBE MA FCA *Mark Wood BA (Econ) FCA MSI

**Executive Committee members*

Group Directors

Group Managing Director: Bob Chase FCA MCT

Group Public Relations: Anthony Peagam FIMI MIPR

Group Public Affairs: John Dawson FIHT FICE

Group Services: Kerry Richardson

Group Finance and Planning: Mark Haszlkiewicz MA CA

Group Personnel: Peter Stemp MA FIPD

Business Directors

Membership

Managing Director: Frank Thackwray

Operations: Alistair Cheyne FIM FIMI MIOD

Finance: Nigel Clark BSc CA

Business Services: Graham Gill FIMI DMS DipM

Information Technology: Leslie Holt BSc

European Operations: Andrew Johnson

FInstTT FIMI MCIM

Personnel: Kevin Peel IPD

Sales and Marketing: Bob Sinclair BA

Call Handling: Peter Tyer

Insurance

Managing Director: Mark Wood BA (Econ) FCA MSI

Finance: Andrew Hodson ACMA MSc (Econ)

Insurance: George Lowe FCII

Operations: Barry Smith

Financial Services

Managing Director: Mark Wood BA (Econ) FCA MSI

Financial Services: Jeff Larkins BA FCA

Retail

Managing Director: Mark Wood BA (Econ) FCA MSI

Retail: Don Tangney ACII

Commercial Services

Managing Director: Pete Johnson BA MTech

Republic of Ireland Managing Director: Paul Bushnell FCMA

Publishing: John Howard

Finance: David Stickland IPFA FCCA

The Corporate Group

Finance and Procurement: Chris Cooke ACA

Information Technology: John Strawbridge

Group Secretary

Colin Skeen LLB

Head Office

Norfolk House, Priestley Road, Basingstoke, Hampshire RG24 9NY

Solicitors

Herbert Smith

Exchange House, Primrose Street

London EC2A 2HS

Amery-Parkes

Law Courts Chambers, 33 Chancery Lane

London WC2A 1EN

Auditors

Coopers & Lybrand

1 Embankment Place

London WC2N 6NN

Bankers

Barclays Bank Plc

54 Lombard Street, London EC3P 3AH

Report of the Chairman — SIR BRIAN SHAW

The AA was 90 years old in 1995, and it proved to be one of the most complex and challenging years in our history.

Membership growth was extraordinary, taking us to 8.6 million and including retention of existing members at record levels.

We were also extremely busy developing our ability to meet the ever-increasing demand for AA assistance, and adding to the number of AA patrols — our finest ambassadors.

There was progress, too, in many other fields, notably the reshaping of AA Financial Services; further development of Home Assistance Services, complementary to our work on the roadside; success for AA Publishing, and related developments in cartographic and multimedia activities; and the creation of a number of new and important strategic alliances.

However, there were tough challenges in our core business, as well as in the insurance market and in retail activities.

At the roadside, we were confronted not only by increased competition — there are now no fewer than 40 organisations offering emergency assistance in the UK — but also by the needs of AA members which, on occasions, threatened to overwhelm us.

The profitability of AA Insurance is a key factor in the financial health of the AA Group, and, as in 1994, the impact of the direct insurers was considerable.

Taken together with steadily falling insurance premiums, and the fact that, increasingly, AA members and customers wish to do business with us by telephone rather than in person, this



undermined the performance of AA shops, leading us to close 97 of them.

A large number of redundancies resulted, and we were extremely sad about that.

Remedial action on such a scale had a dramatic impact on 1995's bottom line, and there was a substantial cost to reshaping the AA to meet the changed, and still changing, needs of members and customers.

The year ended with a deficit of £27 million after tax and minority interests, with £36 million of exceptional items comprising the £19 million reorganisation of AA Retail, £7 million write-downs of AA shops, and £10 million for write-downs and refurbishment of office buildings in Basingstoke.

Public Policy

During 1995 continuing concerns about the car and the environment crystallised into the

Great Debate initiated by the then Secretary of State for Transport, Dr Brian Mawhinney.

The AA was at the heart of that debate — the only organisation to respond in detail to every one of the 102 land-based recommendations made by the Royal Commission on Environmental Pollution.

The AA also challenged the widening gap between road taxation and investment in transport infrastructure by commissioning David Newbery, Professor of Applied Economics at Cambridge University, to investigate the issue. His report, *Reforming Road Taxation*, and the AA's subsequent proposals, have been the subject of considerable government attention.

Committee

It could not be with greater sorrow that I record the death, in February 1996, of Simon Dyer, Director General since 1987, who



SIMON DYER
CBE MA FCA

19 October 1939
17 February 1996

Simon Dyer, who died in February, became Director General of the AA in August 1987, on the retirement of Olaf Lambert, who had held the post for the previous 10 years.

A lawyer and accountant by training, Simon Dyer was a leader whose management skills and judgement were of crucial importance to the AA during a challenging period of development and change, much of it achieved against a background of economic recession.

Simon Dyer was convinced that changes were necessary to carry the AA forward and at the same time to protect and to enhance the services offered to a rapidly growing membership. However, he never lost sight of the AA as a members' club providing a range of personal and emergency services.

He re-organised the AA into four distinct business groupings, and this structure saw it through the recession of the early 1990s in fine style.

Twenty years' experience in key posts with the AA prepared Simon Dyer for his appointment as Director General. He joined the organisation as chief accountant, and helped to install the AA's computerised budgetary control system. In 1970 he was put in charge of touring and travel, establishing the AA's first full range of travel services.

Simon Dyer became director of travel and membership administration in 1973, and in 1977 took over as director of road-service operations, with responsibility for the AA's then five regions. In 1982 he was appointed Managing Director, and one of the first executive members of the AA Committee.

He was awarded a CBE for services to motoring in the 1995 New Year's Honours.

led the AA both in the period of dramatic growth in recent years and its safe passage through the UK recession.

Simon Dyer's leadership and skilful development of the AA, together with his recent three years' service as World President of the Alliance Internationale de Tourisme, the governing body of motoring organisations, will never be forgotten.

On behalf of all who knew and worked with him, and admired his calm, dedicated approach to a very responsible job, I pay tribute to his memory. His mother Evelyn, his widow Gay and his daughters Gemima and Louise continue to be in our thoughts.

I have asked Bob Chase, the Group Managing Director, to give the business report that would, more usually, be written by the Director General – page 3.

In 1995 my predecessor Sir Ralph Carr-Ellison retired, having been the AA's Chairman since 1986.

Sir Ralph's accomplishments, and particularly his courtesy, charm and concern for people, earned great respect both inside and outside the AA, and we are very pleased that he has agreed to continue to serve as a Vice-President.

Our thanks go, too, to Derrick Pease, who retired from the AA Committee, and who during nine years' service worked so effectively as chairman of the AA pension schemes.

Sir Ralph and I were extremely pleased that Sir John Bletloch agreed to succeed me as Vice-Chairman, and I am fortunate to enjoy his support and to draw on his wisdom and experience.

There are three valuable additions to the Committee. Ann Burdus has brought her extensive knowledge of advertising and marketing to the AA; we have welcomed Sir Brian Jenkins, Lord

Mayor of London in 1991-1992 and now Chairman of the Woolwich Building Society; and John Dawson, the AA's Group Public Affairs Director, has joined our number since the end of the year.

President

During 1995 HRH The Duke of Kent completed 21 years' service as the President of the AA, and, as ever, took a close and informed interest in our progress and achievements, which gave us much encouragement.

People

The AA is its people – on and off the road, in each of its business activities and at all levels of responsibility.

In our 90th year we remembered our founding-father Ernest Stenson Cooke, Secretary of the AA from 1905 to 1942, and were delighted when his granddaughter Mrs Diana Birks opened the Stenson Cooke Centre, the new AA museum at our national headquarters in Basingstoke.

Stenson Cooke's absolute commitment to the interests of members – characterised by the watchwords Courtesy and Care, and reflected in today's 4th Emergency Service – continues to inspire the AA, and I thank the management team and every AA employee for playing their vital part in maintaining the Stenson Cooke tradition.

I have no doubt that the values we have cherished and protected for 90 years will continue to underpin success in the future.

Report of the Group Managing Director – BOB CHASE



It is with the utmost regret that I make this report on 1995 in place of Simon Dyer, who, dying earlier this year at 56, was far from the end of an already distinguished career as Director General of the AA.

Most recently, his leadership was steadfast in a year that was extremely complicated, and during which painful decisions had to be taken.

Our principal achievement – a 7.5 per cent increase in AA membership to a record 8,657,478, with retention of personal members at the all-time high of 87 per cent – was the reward for a great deal of hard work.

So, too, was our success in gaining two new motor manufacturers' accounts – Daewoo in the spring, and MGF in the summer – and three new contracts for managing vehicle-recovery schemes on behalf of police forces; AA Publishing's move into multimedia; and our ability to relaunch an expanded Roadwatch service during 1996.

The closure of 97 of the AA's 255 shops was the most visible of the many changes made during the year, and reflected continuing turbulence in the insurance market as well as changed patterns of shopping.

At the roadside, a reorganisation introduced flatter, more efficient management of the AA's patrol force, which increased to 3,800 during the year. We also set about making working practices more flexible, to make sure that patrols are available when, and where, our members need them most.

Elsewhere, investment in information technology helped our call handlers to become more effective, and the value of this investment became clearer at the end of 1995, when we began a reorganisation of call handling, recognising its central importance to *all* operational needs.

A new computer system – FOCUS – means that call handlers now have immediate access to much more information than

before, and that service to members and customers is as a result greatly improved.

A drive for greater efficiency was also a feature of AA Insurance activities, with a series of measures to control operating costs.

New technology now allows us to communicate with our expanding panel of underwriters faster than any rival; and we have succeeded in making the business more competitive, building-in price advantages for AA members that have halted a two-year decline in the insurance portfolio.

Further information on the 1995 progress of the AA's businesses is set out below.

MEMBERSHIP

Extraordinary sales success and membership growth inevitably meant increased demand for service at the roadside.

During the year we took more than 7.3 million calls for breakdown assistance, and

a further 2.6 million for information.

We attended more than 4.8 million emergencies at the roadside, handling an ever-broader range of mechanical failures, and achieving a fix rate by AA patrols in excess of 87 per cent.

Severe weather conditions in December, and changed patterns of demand, gave us our busiest month on record, with more than 530,000 breakdowns attended and over 970,000 telephone calls received.

Service levels at those times of peak demand were

not what we would have wished, and action has been taken to address the difficulties that were encountered.

"Welcome calls" to new AA members have been introduced to check that they have received their membership details and are aware of all the benefits.

During the year we recovered more than £10 million damages for 6,100 members who sought AA help following accidents; our legal advisers handled more than 200,000 telephone and written enquiries; and some 78,000 calls were received and made by our technical advice unit.

In 1995 we opened a new Service Co-ordination Centre (see picture page 3) at our Basingstoke headquarters, with on-line access to BT exchanges that allows us to monitor and to spread peak-demand workloads, redistributing emergency calls from one AA operations centre to another across the UK.

The facility also enables us to review roadside performance in all parts of the country, to disseminate short-term weather information, to activate procedures designed to help us to provide more consistent service at times of extreme

AA business structure

MEMBERSHIP

OPERATIONS

Roadside Services
Operations Planning and Development
Quality Standards
Chief Engineer
Fleet and Workshop Services
AA Technical Services
Vehicle Inspections
Agency Services

SALES AND MARKETING

AA Membership
AA Hire Services
AA Alert
AA Five Star Europe
AA Handbook
AA Magazine
Member Benefits Developments
AA Home Assistance Services
AA Legal Services
Technical Advice

BUSINESS SERVICES

AA Fleet Services
AA Impact
AA Paytrak
Europe Net
AA Warranty Services
AA Training Services
Manufacturer and Trade Services
Public Services Operations

CALL HANDLING

Breakdown Emergencies
Information Services
Telemarketing
Telesales

EUROPEAN OPERATIONS

European Liaison
Foreign Legal Operations
Overseas Assistance
STARS

INSURANCE

Car Insurance
Home Insurance
Life Insurance
Claims Assistance
Travel Insurance
Personal Accident
Health Insurance

FINANCIAL SERVICES

AA Car Loans
AA Personal Loans
AA Visa Card
AA Premium Credit

RETAIL

AA Shops
Safety and Security
Motoring Accessories
AA Motoring Holidays
Ferries
Personal Communications
Publications and Merchandise

COMMERCIAL SERVICES

PUBLISHING

Marketing and International Sales
UK Trade Sales
Corporate Sales
Cartography and Routes
Routes Data Research
British and European Routes
Digital Mapping
Throughroute Maps
Hotel Services
Multimedia

INFORMATION SERVICES

AA Signs
Recorded Information
AA Directory
AA Roadwatch
AA Vodafone Roadwatch
AA Mobile Communications
EU Projects

AA DRIVING SCHOOL

AA IRELAND

pressure, and to gather valuable management information.

The benefits of the Service Co-ordination Centre are complementary to those of AAHELP, the service-delivery system that aids the deployment of rapid-action patrol teams through the use of an advanced graphic-gazetteer system.

Steps are being taken in 1996 to re-address the problem of service abuse by a very small minority of members: the Fair Play policy is being tightened and relaunched.

AA membership through vehicle manufacturers' new and

extended-warranty schemes was maintained at a high level: we now run 17 such schemes, which include contracts with Vauxhall, Rover and Peugeot.

Our work with manufacturers is supported by AA Training Services, which was involved during 1995 in the technical launch of the MGF, Vauxhall Vectra and Peugeot 805 MPV. An Audi training facility was also opened at the AA College, complementing our developing relationship with Volkswagen UK.

Home Assistance Services has become a new benefit for members, providing free and

unlimited access to the AA's network of 2,200 experts dealing in home emergencies, and with service supplied on a pay-for-use basis. A Home Assistance Services Energy Helpline, to combat waste, has also been launched.

In 1996 Home Assistance Services is extending its reach with two insured products – Annual Cover and Premium Annual Cover – that guarantee a supplier will be deployed in the event of a home emergency and offset the cost of remedial work.

INSURANCE

A year of review and change ended with genuine optimism for the future.

Exclusive policies were developed for AA members, and we introduced car insurance customers to the benefits of AA membership, giving them access to the 4th Emergency Service on a pay-as-you-go basis.

The range and appeal of personal insurance products was increased, and we offered customers the opportunity to have their home insurance policies "health checked" at AA shops, to illustrate the high rates charged by some building societies and mortgage providers.

Working with AA Retail, we ran a successful press campaign to highlight how car-security devices can reduce insurance premiums – and doubled the range of security products on sale in AA shops.

We switched telephone business from AA shops to operations centres in Newcastle upon Tyne and Cardiff, achieving speedier service for customers and record telesales.

RETAIL

The 1995 business review that reduced the size of our shops network also introduced

THE CORPORATE GROUP

HEAD OFFICE

Secretariat
Group Member Relations
Risk Management
Legal Services
Claims
Public Affairs
Highways and Traffic Policy
Environment Policy
Road Safety
Autocrime Prevention
Government Affairs
AA Foundation
for Road Safety Research
International Affairs
Public Relations
Group Finance and Planning
Planning
Treasury
Taxation
Internal Audit
Accounting
Pensions
Group Personnel
Management Training
and Development
Personnel Development
Employee Relations
Employee Communications
Group Marketing Services
Market Research
Marketing Co-ordination

GROUP SERVICES

Information Technology
Research and Planning
Desktop Services
and Support
Corporate Data Centre
and Network Operations
Systems Development
and Support
Service Management
Command and
Control Services
Property and Security
Property Management
and Maintenance
Group and IT Security
Logistics and Procurement
Commercial Contracts
Warehousing
and Distribution
Print Services
Group Accounting Services

improvements to customer service, product-targeting and stock management, and helped us to reduce administration and simplify sales.

Shopping with the AA was made more attractive by staging a series of successful Members' Weeks and by introducing a dual-pricing system to give members a price advantage; and a "new concept" shop design, featuring Roadwatch information terminals, was piloted in Swindon and Northampton.

FINANCIAL SERVICES

For the first time since 1990, Financial Services achieved real growth in two key areas: the number of active customer accounts held, and the amount of money outstanding on various financial products.

We cut personal loan rates for members, and recorded our highest-ever advances – £78 million; an unsecured loan was offered; and we introduced a secured loan for members buying secondhand cars from dealers.

An AA Visa Card points system, introduced as a trial at the end of 1994 and redeemable against the cost of AA membership, has proved successful in recruiting new members and encouraging existing members to trade-up.

COMMERCIAL SERVICES

Foremost among the business's 1995 achievements was the forging of a six-year strategic alliance with Vodafone, enabling us in 1996 to repackage and to relaunch our roads and traffic information service, Roadwatch.

The AA Vodafone Roadwatch partnership is putting a fleet of motorcyclists on the road to provide live traffic updates across Britain; and new technology will

help to make the service more sophisticated and effective, opening up opportunities for in-car systems.

We maintained our leading position in electronic cartography, information technology and in-car navigation, and, as the operator of Europe's largest travel and traffic information system, had a major role at the 2nd Intelligent Transport Systems World Congress, held in Yokohama.

Publishing came to terms with the unsettling effects of the collapse of the Net Book Agreement, and expanded its horizons with new and existing forms of communication: the *Hotel Guide* was issued on CD-ROM, and other titles became available in 20 different languages and Braille.

International sales underpinned Publishing's excellent year – we printed our 12 millionth travel guide, and sold 3.2 million atlases. In addition, *The Road Book of Britain*, an old favourite, returned after an absence of 40 years.

The number of AA Driving School instructors increased by 15 per cent, and the company-driver market was successfully penetrated with a contract to train 3,000 employees of the National Rivers Authority.

THE CORPORATE GROUP

The stewardship and service roles performed within The Corporate Group were, as ever, key to the activities of each of the businesses of the AA.

Group Services implemented many major IT systems, including the installation of ISIS, which allows AA Insurance electronically to exchange information with its panels of insurers; and the important FOCUS roll-out, described on page 3.

Property played its part with

a £3.5 million refurbishment of the AA's regional operations centre in Cheadle, the start of renovations to Fanum House in Basingstoke, and in supporting the shops closure programme – with, by the end of 1995, the disposal of 20 vacant premises.

The AA Group's environment strategy for the next five years includes the improvement of fuel and overall energy efficiency; a programme of certification of environmental good practice to ISO 14001; and the roll-out in 1996 of a national waste and recycling initiative at all AA sites.

In addition to the major activities referred to by the Chairman, the Public Policy team was active in the fight to beat autocrime; and we were again the principal sponsor of the Department of Transport's Mobility Roadshow for travellers with disabilities, opened by HM The Queen.

The road safety unit within Public Policy developed an unique, interactive computer programme that helps teenagers to assess their attitudes to road safety *before* they start their driving careers. Proposals by AA road safety experts triggered the Road Traffic (New Drivers) Bill, piloted through Parliament during 1995 and due to become law in July 1996.

The findings were published of a study by the University of Newcastle upon Tyne into the risks faced by older pedestrians, commissioned by the AA Foundation for Road Safety Research; as were the recommendations that followed an AA Foundation/British Institute of Traffic Education Research project to determine the best way to teach road safety to 8 to 11-year-olds.

Bob Chere

Corporate governance

The AA is a members' club and its constitution is set out in its rules. It owns, directly or indirectly, a number of subsidiary companies and these, together with the club itself, are known as the AA Group.

The AA Group is governed by the AA Committee, which is responsible for the management and control of its affairs and has a majority of non-executive members. It monitors best practice concerning corporate governance, and seeks to adopt developments that will enhance the governance of the AA within the framework of its rules.

The Committee supports the principles set out in the *Code of Best Practice* published in December 1992 by the Cadbury Committee on the Financial Aspects of Corporate Governance, and confirms that the AA complies with the requirements of the Code. The auditors' report on corporate governance matters appears on page 20.

COMMITTEE STRUCTURE

The AA Committee meets regularly and defines the AA Group's mission, values and strategic objectives; agrees the group plan and annual budget; takes key financial decisions; monitors performance; approves public policy stances; and generally safeguards members' interests.

It delegates specific authority through defined terms of reference to the following five sub-committees, the members of which, drawn from the AA Committee, are identified on

page 8. As Chairman, Sir Brian Shaw is an ex-officio member of the Audit, Finance and Remuneration sub-committees.

Audit Sub-committee

Responsible for all audit matters, the effectiveness of internal financial controls, compliance matters and the form of the Annual Report and Accounts.

It agrees internal audit work, and considers the work of the external auditors, recommending their remuneration for audit work and reviewing their non-audit remuneration. It also advises the AA Committee on major accounting policies, and reviews the policy on corporate entertainment.

Chairman's Committee

Meets as required to review the workings of the AA Committee and to consider improving its effectiveness. It also makes recommendations to the AA Committee on the composition of sub-committees, and considers AA Committee succession.

Executive Sub-committee

Responsible for implementing AA Committee policies and decisions; formulating overall strategy, policy, plans and budgets; and exercising financial and manpower control. It also reviews business performance and organisational and personnel issues; and formulates policies for technology, procurement, property and other resources.



AUDIT SUB-COMMITTEE

Sir John Blelloch
Chairman
Sir Kenneth Newman
Michael Pickard
Lady Wilcox

CHAIRMAN'S COMMITTEE

Sir Brian Shaw
Chairman
Sir John Blelloch
Lord Crickhowell
Michael Pickard

EXECUTIVE SUB-COMMITTEE

Bob Chase
Acting Chairman
John Dawson
Mark Haszlkiewicz
Pete Johnson
Kerry Richardson
Frank Thackwray
Mark Wood

FINANCE SUB-COMMITTEE

Michael Pickard
Chairman
Sir John Blelloch
Bob Chase
Lord Crickhowell
Mark Haszlkiewicz
Sir Brian Jenkins
Lady Wilcox

REMUNERATION SUB-COMMITTEE

Lord Crickhowell
Chairman
Lieut General
Sir Norman Arthur
Sir John Blelloch
Ann Burdus
Michael Pickard

Finance Sub-committee

Considers financial objectives and policies, financing requirements, banking arrangements and proposals for capital expenditure. It also reviews annual budgets, and matters concerning taxation, treasury management and pensions.

Remuneration Sub-committee

Determines the remuneration and conditions of service of executive Committee members and senior executives, and recommends the remuneration of non-executive Committee members. The report of the Remuneration Sub-committee is set out on pages 13 to 14.

MANAGEMENT STRUCTURE

The Director General, as the AA's chief executive, is responsible for implementing AA Committee decisions, primarily through his chairmanship of the Executive Sub-committee.

The duties of this committee are, in part, delegated to the Managing Directors' Meeting and to individual business boards.

Managing Directors' Meeting

Comprises members of the Executive Sub-committee, other than the Director General, also Group Directors and the Group Secretary.

This executive group deals with day-to-day, cross-group co-ordination and other issues, including the environment, human resources, information technology, branding and marketing, security, accommodation and procurement. It also reviews and approves the AA Group's policy statements and financial projects for sums beyond

the business boards' authority.

In early 1996 meetings were suspended for the period of the Director General's absence on sick leave and following his subsequent death. Business is currently conducted through weekly meetings of the Executive Sub-committee, with Bob Chase carrying out the duties of the Director General.

Business boards

Responsible for AA Group businesses' day-to-day operations, and for compiling and reviewing business plans, budgets and projects.

PENSION SCHEMES

The AA pension schemes operate under independent trust arrangements and comply with good practice as expressed in the 1995 Pensions Act. The AA Group actively encourages membership of these schemes.

The trustees meet quarterly, and a non-executive AA Committee member serves as chairman, with the remaining trustees divided equally between those nominated by members of the schemes and those appointed by the AA.

Investment management is provided by leading advisers appointed by the trustees. The performance of the investments is monitored by an independent company and reported to the trustees by a leading firm of actuaries.

INTERNAL CONTROL

The AA Committee:

- Acknowledges that it is responsible for the AA Group's system of internal financial control;
- Indicates that such a system

can only provide reasonable and not absolute assurance against material mis-statement or loss; and

- Confirms that it has reviewed the effectiveness of the system of internal financial control.

The key procedures, which members of the AA Committee have established and which are designed to provide effective internal control, are described below.

The AA Committee meets regularly to consider matters that require decision or attention, maintaining full and effective control over strategic, financial and organisational issues, and over the values that derive from the fundamental beliefs of the group.

The AA Committee has delegated primary authority for day-to-day management of the group's objectives to the Executive Sub-committee, chaired by the Director General.

The internal control systems cover not only financial matters but also mechanisms to ensure adherence to the AA's values, within which all AA businesses and the head office operate. Set out below are the ways in which these values are assured.

Brand

The Marketing and Brand Group oversees the maintenance of AA brand values for the benefit of members, customers and employees.

Each year, a survey is conducted and provides an evaluation of the brand.

"Courtesy and Care"

Regular surveys are carried out of members' and customers' views of service performance to maintain the AA's reputation for courtesy and care at a high level. They are also asked to give

feedback through satisfaction questionnaires.

The AA recognises that by properly and promptly responding to complaints it can learn lessons and avoid problems in the future.

A formal procedure is in place to make sure that making a complaint is simple, the cause of the complaint is speedily, fairly and confidentially addressed, and that it is followed by an effective response and appropriate redress.

Integrity and independence

The AA Group has standards of personal and business behaviour for employees in dealings with members, customers, suppliers and commercial partners, and with one another, set out in the booklet *Business Standards we can Trust*.

The group also maintains a set of instructions setting out details of limits of authority and all accounting, control and allied processes.

The Internal Audit department operates throughout the group and reports to the Audit Sub-committee on adherence with these principles, controls and processes.

Quality and value for money

The group strives for continuous improvement, investigates lessons learned from complaints, and seeks guidance from survey responses and customer-satisfaction questionnaires.

It also operates a comprehensive annual planning and financial reporting system, comparing actual results with plans and budgets.

The AA Committee reviews and gives final approval to strategic and tactical plans, as well as authorising annual budgets.

Business principles

The AA operates under the guidance of agreed policy statements, many of which set out the basis for the way in which the AA behaves with business partners. These policies are uncompromising, and all audit and review processes within the group monitor adherence to the principles set out within them.

Stakeholders

The group values apply to its members, customers, staff and business partners. Regular staff opinion surveys, team briefing and other formal communication media, and personal performance reviews, are used to make sure that AA values are understood and honoured by all employees.

GOING CONCERN

The AA Committee continues to adopt the going concern basis in preparing the AA Group's financial statements. Having considered the group's cash resources and the Members' Fund, it confirms that, in light of future plans, these are adequate for the AA Group to continue in operational existence for the foreseeable future.

AA Committee



CHAIRMAN
Sir Brian Shaw

SIR BRIAN SHAW (63) became AA Chairman in 1995 on the retirement of Sir Ralph Carr-Ellison. He joined the AA Committee in 1988, bringing a wealth of experience in business, corporate governance and financial control – his appointment as AA Treasurer, in 1990, was followed by the Vice-Chairmanship in 1992. He is a former Chairman of Furness Withy, a past President of the General Council of British Shipping and a former Chairman of the International Chamber of Shipping, and he retired as Chairman of ANZ Grindlays Bank at the close of 1995. In addition to his AA roles, which include membership of the Council of the AA Foundation for Road Safety Research, he is Chairman of the Port of London Authority, and a director of a number of public companies.

government committees and charitable organisations.

LIEUT GENERAL SIR NORMAN ARTHUR (65) joined the AA Committee in 1990 and is a member of the Remuneration Sub-committee and the Council of the AA Foundation for Road Safety Research. A detailed understanding of logistical issues, applied to AA service-delivery, owes much to a distinguished military career – he is a former General Officer Commanding the Army in Scotland, a Vice-President (past President) of the Scottish Conservation Projects Trust, Chairman of the Army Benevolent Fund Scotland, Lord Lieutenant for Stewartry District, Dumfries and Galloway Region, and Honorary Colonel of the Scottish Yeomanry.

ICE-CHAIRMAN
Sir John Blelloch



SIR JOHN BLELLOCH (65) came on to the AA Committee in 1993 and became Vice-Chairman in 1995. He is Chairman of the Audit Sub-committee, a member of the Chairman's Committee, and a member of the Finance and Remuneration sub-committees and the Council of the AA Foundation for Road Safety Research. To these he brings 36 years' experience of policy-making and management in the public service, latterly as Second Permanent Under-Secretary at the Ministry of Defence 1984-1988 and Permanent Under-Secretary of State, Northern Ireland Office, 1988-1990. In addition to his commitments to the AA he holds appointments with a number of

ANN BURDUS (62) joined the AA Committee in 1995, is a member of the Remuneration Sub-committee, and contributes considerable experience in advertising and marketing to AA business development and group branding issues, having held senior appointments with Ogilvy & Mather, McCann Erikson, AGB Research and Olympia & York. She has served on a number of public bodies, including the Senior Salaries Review Board and the Advisory Committee for Business and the Environment, and is a part-time director of the Civil Aviation Authority and a non-executive director of the Argyll Group, Dawson International and Next.



Lieut General
Sir Norman Arthur

Ann Burdus



BOB CHASE (51), AA Group Managing Director, became a member of the Committee in 1990, when he came on to the AA staff. He is acting as Director General, and as such is Chairman of the Executive Sub-committee as well as a member of the Finance Sub-committee. Prior to joining the AA he was with Orient Overseas (Holdings) in Hong Kong. Earlier this year he became a non-executive director of the London Transport Board, and a member of its financial audit sub-committee.

LORD CRICKHOWELL (62) joined the AA Committee in 1988. He is Chairman of the Remuneration Sub-committee, a member of the Chairman's Committee, and a member of the Finance Sub-committee. A former Secretary of State for Wales, and Chairman of the National Rivers Authority until earlier this year, he is a director of a number of public companies and President of the University of Wales, Cardiff.

JOHN DAWSON (46), AA Group Public Affairs Director, joined the AA in 1995 and became a member of the Committee in 1996. He is a member of the Executive Sub-committee and the Council of the AA Foundation for Road Safety Research. Director of Roads for The Scottish Office 1988-1995, he is also a former Director for London at the Department of Transport, and has worked on major transport projects in Hong Kong and South America.

MARK HASZLAKIEWICZ (50), AA Group Finance and Planning Director, came on to

the Committee in 1993 and is a member of the Finance Sub-committee and the Executive Sub-committee. He held senior finance positions in the Inchcape Group in London and Hong Kong before joining the AA in 1991.

SIR BRIAN JENKINS (60) joined the AA Committee in 1995 and is a member of the Finance Sub-committee, bringing many years' City and financial experience to the Committee table – he was a senior partner in Coopers & Lybrand until his retirement in 1995. Lord Mayor of London 1991-1992, and a past President of the Institute of Chartered Accountants in England and Wales, he is now Chairman of the Woolwich Building Society.

PETE JOHNSON (49), Managing Director of AA Commercial Services – responsible among other things for publishing and multimedia activities, information services, the driving school and AA Ireland – became a member of the Committee in 1992 and is a member of the Executive Sub-committee. He joined the AA in 1970 as a planning economist, and is a former general manager of AA Ireland, service director of AA Road Services and director, AA Membership.

SIR KENNETH NEWMAN (69) joined the AA Committee in 1987 and is Chairman of AA Pension Schemes, a member of the Audit Sub-committee and the Council of the AA Foundation for Road Safety Research. Policy-making discussions on motoring law and road safety benefit from his lifetime of service in the police:

Bob Chase



Lord Crickhowell



John Dawson



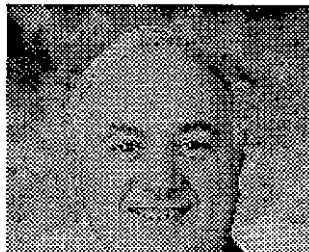
Mark Haszlakeiw

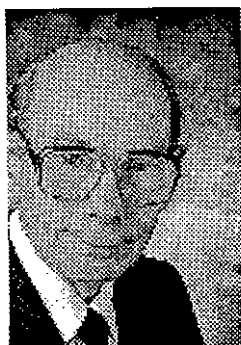


Sir Brian Jenkins



Pete Johnson





Sir Kenneth Newman

he was Commissioner of the Metropolitan Police 1982-1987, and also served as Chief Constable of the Royal Ulster Constabulary, Commandant of the Police Staff College and Her Majesty's Inspector of Constabulary. He is Chairman of the Research Committee of the Police Federation, and a Trustee of The Crimestoppers' Trust.

Michael Pickard



MICHAEL PICKARD (63) came on to the AA Committee in 1994. He is Chairman of the Finance Sub-committee, a member of the Chairman's Committee, and a member of the Audit and the Remuneration sub-committees. Long experience in senior management in hotels, catering and retailing enables him to make a broad contribution to AA service-delivery, business development and financial control. He is a former Managing Director of Trust House Forte, Executive Chairman of Courage and Chief Executive of Sears, and was the founder of the Happy Eater restaurant chain. He is now a director of a number of public and private companies, and Chairman of London Docklands Development Corporation.

FRANK THACKWRAY (56), Managing Director of AA Membership – responsible among other things for roadside services, membership, sales and marketing, business and public services, call handling and European operations – became a member of the Committee in 1989 and is a member of the Executive Sub-committee. He joined the AA in 1983 as Group Management Services Director, having previously been with International Computers, where he was a regional director.



Kerry Richardson

KERRY RICHARDSON (47), AA Group Services Director – responsible among other things for information technology systems and delivery, property, security, and logistics and procurement – became a Committee member in 1991 and is a member of the Executive Sub-committee. He joined the AA in 1989 as Group Management Services Director, having previously been with International Computers as general manager of ICL Financial Services.

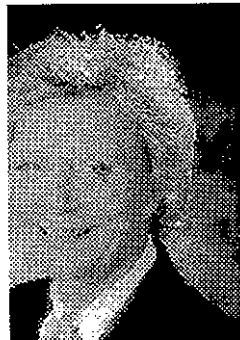
LADY WILCOX (56) came on to the AA Committee in 1991 and is a member of the Audit and Finance sub-committees. Twenty years in the food industry have been followed by distinguished public service, in particular work on behalf of consumers: she is a former Chairman of the National Consumer Council and member of the Local Government Commission. Current appointments include membership of the Prime Minister's Citizen's Charter Advisory Panel, the Money Advice Trust, the Inland Revenue Management Board, the board of the Port of London Authority and the General Advisory Council of the BBC. She was made a Baroness in 1995.

Frank Thackwray



Lady Wilcox

MARK WOOD (42), Managing Director of AA Insurance, AA Financial Services and AA Retail, joined the AA, and the Committee, in 1994. He is a member of the Executive Sub-committee. Previously he held senior appointments in the insurance industry, and was Divisional Chief Executive of MAI 1991-1994.



Mark Wood



Report of the Remuneration Sub-committee

This report describes the policies and procedures applied by the Remuneration Sub-committee in respect of executive and non-executive Committee members' emoluments, details of which are shown on pages 30 to 32.

The Remuneration Sub-committee operates within terms of reference agreed by the AA Committee, and its members, who are shown on page 8, are all non-executive Committee members. The sub-committee is able to seek advice from independent consultants and information from AA senior executives.

The AA complies with the Greenbury Code of Best Practice with the following two exceptions:

- Individual pension entitlements are not published this year but publication will be considered when a method of calculation has been recommended by the Faculty of Actuaries and the Institute of Actuaries and agreed.
- Each executive Committee member has a service contract which sets out his terms of employment with the AA. The agreement provides that one year's notice be given by the individual and two years' by the AA. Except in cases where the termination of contract by the AA is justified for specified reasons, compensation is payable at two years' pay and benefits when no notice is given, although notice has been given for contracts to be changed so that full compensation will not necessarily require to be paid.

Non-executive Committee members

Remuneration is reviewed annually after considering market data drawn from published surveys and

from the AA's own research on non-executive directors pay among public companies and mutual organisations.

Non-executive Committee members receive an annual fee reflecting the knowledge and experience that they bring and the commitment they give to the AA. They have no pension entitlement and do not participate in any bonus or incentive schemes. They are eligible to be covered by the AA's private medical insurance arrangements.

Executive Committee members

The policy in respect of executive Committee members is to make sure that rewards reflect individual responsibilities, performance, experience and market conditions so that skilled managers can be recruited, retained and motivated. The components are base salary, benefits, an annual bonus scheme and a long-term remuneration scheme.

Remuneration levels are reviewed annually and are set after considering relevant market data drawn from published surveys and the advice of independent consultants. The comparator companies cover the range of the service sector, mainly public companies, and include mutual organisations such as building societies and insurance companies.

Base salary levels are reviewed by reference to each individual's responsibilities, competencies and performance against agreed objectives.

Benefits typically include a fully expensed car, private medical insurance and an interest subsidy on mortgages provided by Barclays Bank.

Executive Committee members are eligible for

pre-agreed personal objectives and profit and service objectives of the AA Group and individual businesses within the group. The achievement of defined results in each business may therefore generate bonus payments to those with responsibility for the management of those business sectors. In 1995, each executive Committee member elected to waive his entitlement to bonus payments in the range 12 per cent to 32 per cent (1994, 1 per cent to 30 per cent paid) of salaries, in view of the financial effect of the measures taken to restructure AA businesses for the longer term benefit of the AA Group.

A long-term remuneration scheme was established in 1994. Payments under the scheme are dependent on the success of the AA Group in attaining defined long-term strategic aims. Performance units are allocated in relation to base salary, at the then unit price, which is determined at the time of allocation. Each allocation of performance units is treated separately and is redeemable between the fourth and seventh years following grant. The unit price is re-calculated annually based on pre-determined objective measures of the AA Group's strategic success.

Executive Committee members are members of the AA management contributory pension scheme to which employer's contributions were made at 22 per cent (1994, 22 per cent) of pensionable earnings. The scheme includes benefits for senior executives which, subject to Inland Revenue limits, provides each with a pension based on an accrual rate of one-thirtieth for each year of service, together with benefits on death or disability. Four executive Committee members are subject to an earnings cap

imposed by law and receive compensation through a salary supplement.

Under the terms of their service contracts, executive Committee members are not permitted to work in any other business or occupation unless consent is given. Under current policy, consideration will be given to the holding of up to two non-executive directorships. It is a condition of the policy that any fees received must be paid to the AA. Bob Chase is a non-executive director of the London Transport Board.

Financial review

The topics with which the Financial Review concluded in 1994 continued to have a significant impact on the 1995 results for the AA Group: the competitiveness of the insurance market; the level of subscription rates; and marginally higher interest rates.

Insurance premium deflation benefited motorists generally in 1995. However, the severity of the trend and its impact on commission income, and clear evidence of a growing preference of AA members and customers to access our services by telephone, led to a major review of our retail operations. As a result, 97 shops were closed and provision made where appropriate to reduce the carrying value of those remaining open, resulting in exceptional charges of £25.5 million.

The continued increase in membership numbers, coupled with the modest increase in subscription rates at the beginning of 1995, resulted in a growth in subscription income of 5 per cent to £308.4 million. Additionally, short-term interest rates were higher than in 1994, producing an increase in interest income of £4.8 million.

Group results

Total group income fell from £550 million to £544 million as increases in income from Membership and Commercial Services failed to make good the decrease in income from Insurance and Retail. Total operating expenditure, however, increased to £588 million, largely as a result of exceptional charges of £36 million. After the AA Group's share of profits of associated undertakings, principally AA Financial Services, of £14 million, there was a pre-tax operating deficit of £29 million. After tax and minority interests, the deficit to be deducted from the Members' Fund was £27 million.

Format of accounts

The format of the accounts remains consistent with last year, as the new Financial Reporting Standards issued in and effective for 1995 had no impact on the AA Group. However, following the

recommendations of the Greenbury Committee, further information on the remuneration of Committee members is provided in the Report of the Remuneration Sub-committee on pages 13 to 14 and in Note 5 to the accounts.

Business results

Membership produced a surplus before tax of £372,000, down from £7 million in 1994. Income increased by £18 million to £354 million but costs increased by £25 million, largely for two reasons. First, to improve the level of service delivery to members, and to provide service for the increased membership base, the number of employees increased by 560 to 7,742 at the end of the year. Second, the combination of very hot weather over the long summer and the exceptionally bad weather towards the end of the year led to unprecedented demand for roadside service, resulting in higher call-out costs, especially for garage operations to supplement our patrols.

Average insurance premium rates continued to fall during the year – 15 per cent for motor insurance, and 6 per cent for home insurance – but the decline in the number of policyholders stabilised in the last quarter as our offering became more competitive in the market place. **AA Insurance** income fell to £104 million in 1995 from £137 million in 1994, but the business produced a surplus of £5 million, compared with a deficit of £5 million in 1994. This was achieved through measures taken to enhance the appeal and competitiveness of the product offering and improved retention, assisted by cost savings from the restructuring exercise carried out in 1994.

Retail became a separate business at the beginning of 1995. New products were developed for car security and safety, but the expansion in sales was insufficient to replace income lost from the continued fall in average insurance premiums and the move towards greater use of the telephone as a means of purchasing AA Group products.

On 7 July 1995 the closure of 97 shops was announced and, although some staff were found

alternative jobs within the group, redundancy costs of £3.2 million were incurred. But the main cost of this programme related to properties – £3.6 million for accelerated depreciation, and a provision of £10.3 million against future lease costs. Additionally, following a detailed review, it was decided that there had been a permanent diminution in the value of the remaining leasehold property portfolio, resulting in a further exceptional charge of £7 million.

The surplus from **Financial Services** (including share of profits in associated undertakings) fell by £1.8 million to £19.1 million, partly as a result of the decline in insurance instalment business and partly from increased investment in new products. During the year the business successfully repositioned its range of loan products at highly competitive interest rates and offered, for the first time, a preferential member loan for car purchase.

Within **Commercial Services**, all main areas – information services, publishing, the driving school and the Republic of Ireland – improved on their 1994 results. Overall, the deficit reduced by £300,000 to £6.3 million – a figure that included an increased spend of £1.3 million on the development of electronic publishing.

The results for **The Corporate Group**, combining the costs of the central group service departments, treasury and head office functions, including the AA's public policy operations, and offset by interest receivable on the group's reserves, disclosed a net cost of £8.5 million – £2 million lower than in 1994. These results include an exceptional charge of £10.5 million following a review of the group's requirement for office space in Basingstoke and the consequent decision to realign the existing property portfolio with those needs.

Taxation

Despite a deficit before tax of £29 million, the taxation credit for the year is only £127,000. The reasons are threefold: first, the Association is taxable on all its investment income, and cannot obtain relief for any deficit arising from mutual activities; second, the exceptional costs include non tax-deductible

property depreciation; and third, accounting rules inhibit the recognition of increases in potential deferred tax assets where there are no corresponding deferred tax liabilities.

Outlook

Financially, 1995 was clearly not a good year, but the exceptional costs of the last two years have been incurred largely with the objective of restoring the profitability and competitiveness of the Insurance business and reducing the retail network. These markets will remain difficult in the years ahead, but we believe that action of the kind we have taken is appropriate if the businesses are to have a realistic structure from which to compete.

In Membership, further investment is being made in additional patrols and in improving services. To provide a premium, quality service, we must ensure that value for money is given and that we keep pace with the increasing needs of our members at a time when competitive activity is intensifying the financial pressure.

In spite of the severe weather in January and February, 1996 has started well, and in addition our financial position has been strengthened with the sale of our 50 per cent share in Financial Services' Budget Account product to our joint venture partner, NWS Bank, for £10 million.

Over the last two years, the AA Group has incurred substantial deficits in reducing the cost base of its insurance and retail businesses. The Members' Fund now stands at £128 million which the Committee considers adequate for its current operational needs.

Report of the Committee

The Committee of The Automobile Association presents its report, together with the audited financial statements for the year ended 31 December 1995.

Principal activities

The Automobile Association is a members' club, with subsidiary companies and associated undertakings, together referred to as the AA Group.

The principal activities of the AA Group are the provision of motoring and personal assistance to members, of insurance and financial services, and of motoring and other related services and products.

The provision of motoring and personal assistance and other member-related benefits, together with the representation and promotion of members' interests, are carried out by The Automobile Association. The other principal activities are largely carried out by the subsidiary companies and associated undertakings.

A list of the principal subsidiary companies and associated undertakings is given on pages 36 and 37.

Business review

The Chairman's Report on pages 1 and 2, the Group Managing Director's Report on pages 3 to 6 and the financial review on pages 15 and 16 describe the AA Group's operations during the year, its position at the year end and the AA Group's likely future developments.

The AA Group's deficit before taxation for the year amounted to £29.5 million (1994, £7.9 million), and the net deficit deducted from the Members' Fund amounted to £27.2 million (1994, £6.3 million).

Committee

The following are members of the Committee, all of whom have been Committee members for the whole of the year, except where indicated.

Sir Brian Shaw MA FCIT CIMgt
Chairman

Sir John Blelloch KCB BA
Vice-Chairman

Lieut General Sir Norman Arthur KCB DL
Ann Burdus BA
(appointed 3 May 1995)

*Bob Chase FCA MCT

The Rt Hon the Lord Crickhowell PC MA

*John Dawson FIHT FICE
(appointed 7 February 1996)

*Mark Haszlkiewicz MA CA
Sir Brian Jenkins GBE MA FCA
(appointed 5 July 1995)

*Pete Johnson BA MTech

Sir Kenneth Newman GBE KStJ QPM LLB CIMgt
Michael Pickard FCA CIMgt

*Kerry Richardson

*Frank Thackwray

The Rt Hon the Baroness Wilcox

*Mark Wood BA (Econ) FCA MSI

**Executive Committee members*

Sir Ralph Carr-Ellison retired as Chairman on 8 December 1995 and was succeeded by Sir Brian Shaw. On the same date, Sir John Blelloch replaced Sir Brian Shaw as Vice-Chairman. Derrick Pease, who was a Committee member at the beginning of the year, retired on 30 June 1995. Simon Dyer was Director General during 1995 and until his death on 17 February 1996.

None of the Committee had any beneficial interest in shares of any group undertaking during the year.

Fixed assets

Changes in group tangible fixed assets are set out in note 9 to the financial statements.

During 1995 a full review was undertaken of the viability of the AA Group's retail operations, taking into account the changed nature of general

shopping habits, the location of the properties and the move by our members and customers to deal with us directly by telephone. It was concluded that 97 outlets were uneconomic and, consequently, they were closed and an exceptional depreciation charge of £3.6 million was made to write down the carrying value of those properties. A further £7 million was charged as an exceptional item to write down the book value of the remaining properties to recognise a permanent diminution in their value.

In addition, following a strategic review of the AA Group's property portfolio and requirements in Basingstoke, an exceptional depreciation charge of £3.5 million has been made to recognise the fall in value of one of the group's properties, identified as being surplus to requirements.

In the opinion of the Committee, the current open market value on an existing use basis of the freehold and leasehold land and buildings was approximately £16 million less than the amount of £80 million at which they are included in the balance sheet at 31 December 1995. Apart from the properties referred to above, the Committee considers that there has been no permanent diminution in the value of these assets to the AA Group.

Employee communication and involvement

Throughout the AA Group, employee communication and consultation schemes operate to increase the effectiveness of the group's operations for the mutual benefit of members, customers and employees. All employees have the opportunity to attend communication meetings or team briefings to receive information and to give their views on financial performance, business developments, service standards or local operational developments. Additionally, within these meetings, employees have the opportunity to raise any other matters relevant to the group's activities.

In accordance with agreements which exist with TUC-affiliated unions, a variety of matters relating to employees' terms and conditions of employment are jointly kept under review by national joint committees. All employees within the AA Group are able to share in the success of the organisation through participating in performance-related bonus or incentive schemes. In addition, there is a long-term remuneration scheme for senior management

which may result in bonus payments dependent on the success of the group in attaining its long-term strategic aims.

People with disabilities

During the year the AA Group gave full consideration to applications for employment from people with disabilities, whether registered or not, having regard to their particular aptitudes and abilities. People with disabilities employed by the group participate as appropriate in training and career development schemes. It is the group's policy, where an employee becomes disabled while employed, to make arrangements wherever possible for the employee either to continue in the same job or to be offered retraining for alternative employment.

Insurance of Committee members

The AA Group maintains liability insurance for Committee members and other senior staff in order to meet the indemnity given by rule 53 of the rules of The Automobile Association.

Charitable donations

During the year donations to charities amounted to £129,433 (1994, £134,826) and included £90,000 (1994, £80,000) to the Automobile Association Foundation for Road Safety Research. No political donations were made.



BY ORDER OF THE COMMITTEE
OF THE AUTOMOBILE ASSOCIATION

C J SKEEN

SECRETARY

BASINGSTOKE, 3 APRIL 1996

Responsibilities of the Committee in relation to financial statements

The following statement, which should be read in conjunction with the report of the auditors on page 21, is made with a view to distinguishing for members the respective responsibilities of the Committee and of the auditors in relation to financial statements.

The Committee is required by the rules of The Automobile Association to prepare financial statements. In accordance with the Committee's commitment that the financial statements should comply with best practice, the financial statements have been prepared as if the requirements of the Companies Act 1985 applied.

In accordance with that Act, the Committee would be required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the AA Group and the Association at the end of the financial year, and of the results of the AA Group for the financial year.

The Committee considers that, in preparing the financial statements on pages 22 to 44, appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used and that all applicable accounting standards have been followed.

In accordance with the Companies Act 1985, the Committee would be responsible for ensuring that the Association keeps accounting records which

disclose with reasonable accuracy the financial position of the Association and which will enable it to ensure that the financial statements comply with that Act. In addition, the Committee would have general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the AA Group and to prevent and detect fraud and other irregularities. The Committee confirms that it has complied with these requirements.

Report by the Auditors to The Automobile Association on corporate governance matters

In addition to our audit of the financial statements, we have reviewed the Committee's statement on pages 7 to 9 on the Association's compliance with those paragraphs of the Code of Best Practice specified by the London Stock Exchange for review by auditors of listed companies. The objective of our review is to draw attention to any non-compliance with those paragraphs of the Code which is not disclosed.

Basis of opinion

We carried out our review in accordance with Bulletin 1995/1 "Disclosures relating to corporate governance" issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the group's system of internal financial control or its corporate governance procedures, nor on the ability of the AA Group to continue in operational existence.

Opinion

With respect to the Committee's statements on internal control and going concern on pages 8 and 9, in our opinion the Committee has provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance) and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain Committee members and officers of the Association, and examination of relevant documents, in our opinion the Committee's statement on pages 7 to 9 appropriately reflects the Association's compliance with the other paragraphs of the Code specified for our review.

COOPERS & LYBRAND
CHARTERED ACCOUNTANTS
LONDON, 3 APRIL 1996

Report of the Auditors to the members of The Automobile Association

We have audited the financial statements on pages 22 to 44.

Respective responsibilities of the Committee and auditors

As described on page 19, the Committee is responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

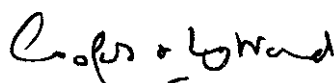
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Committee in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Association's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the affairs of the Association and the AA Group at 31 December 1995, and of their results, total recognised gains and losses, and cash flows for the year then ended.



COOPERS & LYBRAND
CHARTERED ACCOUNTANTS
AND REGISTERED AUDITORS
LONDON, 3 APRIL 1996

Accounting policies

The financial statements have been prepared on a consistent basis under the historical cost convention and in accordance with applicable Accounting Standards in the United Kingdom.

A summary of accounting policies is set out below.

Basis of consolidation

The AA Group financial statements consolidate the accounts of The Automobile Association and its subsidiary undertakings after eliminating internal transactions.

Acquisition of subsidiaries

The results of subsidiary undertakings acquired during a year are included in the consolidated income and expenditure account from the date of their acquisition. Purchased goodwill arising on the acquisition of new subsidiaries represents the excess of the fair value of the consideration given over the fair value of the net assets acquired. The AA Group eliminates goodwill arising on consolidation by write-off against the Members' Fund.

Associated undertakings

The AA Group's share of profits less losses of associated undertakings is included in the consolidated income and expenditure account, and the AA Group's share of post-acquisition retained profits and reserves is included in investments in the consolidated balance sheet.

Operating income

Subscriptions are apportioned on a time basis over the year of membership and are shown exclusive of value added tax and insurance premium tax. Members' subscriptions in advance represent the proportion of subscriptions receivable applicable to future accounting years.

Other operating income represents sales of goods and services, commissions and insurance

premiums and is shown exclusive of value added tax and insurance premium tax.

Finance lease income

Income earned from hire purchase contracts is accrued over the life of the contract in proportion to the net capital amount outstanding.

Exceptional items

Exceptional items are those items that need to be disclosed separately by virtue of their size or incidence. Such items are included within the operating results unless they represent profits or losses on the sale or closure of an operation, costs of a fundamental restructuring or reorganisation and profits or losses on the disposal of major fixed assets, in which case they are shown separately on the income and expenditure account after the results on ordinary activities.

Fixed assets

Fixed assets are stated at cost, less accumulated depreciation. Depreciation is calculated so as to write off the cost of fixed assets, other than land, on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Freehold buildings	2%
Long leasehold properties	2%
Short leasehold properties	over the period of the leases
Equipment	3.33% – 33.3%
Motor vehicles	16% – 22%

Amortisation of leasehold properties commences on 1 January, following occupation. The cost of furniture and fittings is written off in the year of purchase, except in the case of major projects where the costs are capitalised and depreciated using an annual rate of 20 per cent.

Software

Software costs are written off as incurred, except for purchases from third parties in respect of major systems. In such cases, the costs are written off over a maximum of five years from the date of implementation.

Operating lease expenditure

Costs in respect of operating leases are charged to the income and expenditure account on a straight line basis over the lease term.

Retirement benefits

The cost of providing retirement benefits is charged to the income and expenditure account over the periods benefiting from employees' services. The difference between the charge to the income and expenditure account and the contributions and premiums paid is shown as an asset or liability in the balance sheet.

Taxation

The charge for taxation is based on the surplus or profits for the year, which are subject to taxation, and takes into account taxation deferred or accelerated because of timing differences that arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. Provision is made for all material timing differences to the extent that it is probable that a liability or asset will crystallise, at the rate which is expected to be applied when the liability or asset is expected to crystallise.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost comprises the direct costs of products, excluding, in the case of Publishing stocks, the costs of the group's editorial staff, which are charged to the income and expenditure account as incurred.

Insurance intermediary assets and liabilities

Certain group undertakings act as agents in the insurance of clients' risks and, generally, are not liable as a principal for premiums due to underwriters nor for claims payable to clients. Notwithstanding the undertakings' legal relationship with clients and underwriters, and since, in practice, premiums and claims monies are usually accounted for by insurance intermediaries, generally accepted accounting practice has been followed by showing cash, debtors and creditors relating to insurance business as assets and liabilities of the undertakings themselves.

Investments

Investments, other than in associated undertakings, are valued individually at the lower of cost and net realisable value. Net realisable value is estimated by the Committee in the case of unlisted investments, and is market value in the case of listed investments.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the end of the financial year.

Gains and losses arising on the translation of the assets and liabilities of overseas operations are taken to the income and expenditure account, together with other exchange differences.

Income and expenditure accounts

FOR THE YEAR ENDED 31 DECEMBER 1995

	Note	Group		Association	
		1995 £'000	1994 £'000	1995 £'000	1994 £'000
Income					
Operating income	1	523,183	534,252	255,173	291,765
Net interest receivable and similar income	2	20,603	15,549	5,815	4,922
		<u>543,786</u>	<u>549,801</u>	<u>260,988</u>	<u>296,687</u>
Operating expenditure		(551,785)	(543,839)	(258,699)	(289,725)
Exceptional operating expenditure	3	(35,976)	(27,206)	(5,730)	(8,260)
Total operating expenditure		<u>(587,761)</u>	<u>(571,045)</u>	<u>(264,429)</u>	<u>(297,985)</u>
Operating deficit	4	(43,975)	(21,244)	(3,441)	(1,298)
Dividends from group undertakings		—	—	7,792	3,675
Share of results of associated undertakings	7	<u>14,451</u>	<u>13,323</u>	<u>—</u>	<u>—</u>
(Deficit)/surplus on ordinary activities before taxation		(29,524)	(7,921)	4,351	2,377
Taxation credit/(charge) on (deficit)/surplus on ordinary activities	8	<u>127</u>	<u>1,276</u>	<u>(3,682)</u>	<u>(1,770)</u>
(Deficit)/surplus for the financial year		(29,397)	(6,645)	669	607
Minority interests		<u>2,193</u>	<u>323</u>	<u>—</u>	<u>—</u>
Retained (deficit)/surplus for the year		<u>(27,204)</u>	<u>(6,322)</u>	<u>669</u>	<u>607</u>

All items dealt with in arriving at the operating deficit for both 1995 and 1994 relate to continuing operations.

As the financial statements have been drawn up under the historical cost convention, there is no difference between the income and expenditure accounts, reported above, and their historical cost equivalents.

Statements of total recognised gains and losses

FOR THE YEAR ENDED 31 DECEMBER 1995

	Group		Association	
	1995 £'000	1994 £'000	1995 £'000	1994 £'000
Retained (deficit)/surplus for the year	(27,204)	(6,322)	669	607
New life members' subscriptions	29	43	29	43
Total recognised gains and losses for the financial year	(27,175)	(6,279)	698	650

Reconciliations of movements in the Members' Fund

FOR THE YEAR ENDED 31 DECEMBER 1995

	Group		Association	
	1995 £'000	1994 £'000	1995 £'000	1994 £'000
Retained (deficit)/surplus for the year	(27,204)	(6,322)	669	607
New life members' subscriptions	29	43	29	43
Goodwill written off	—	(1,807)	—	—
Net (deduction from)/addition to the Members' Fund	(27,175)	(8,086)	698	650
Members' Fund at 1 January 1995	155,189	163,275	40,689	40,039
Members' Fund at 31 December 1995	128,014	155,189	41,387	40,689

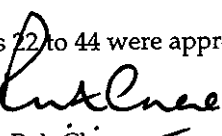
Balance sheets

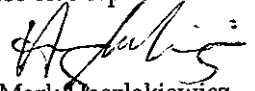
31 DECEMBER 1995

	Note	Group		Association	
		1995 £'000	1994 £'000	1995 £'000	1994 £'000
Fixed assets					
Tangible assets	9	175,115	195,601	130,396	133,153
Investments in group undertakings	10	—	—	14,200	14,000
Investments in associated undertakings	11	3,528	3,521	—	—
Other investments other than loans	12	1,961	1,920	568	568
		<u>180,604</u>	<u>201,042</u>	<u>145,164</u>	<u>147,721</u>
Current assets					
Stocks	13	8,145	8,879	2,101	3,072
Debtors	14	120,032	119,887	64,151	31,954
Investments – short-term deposits		240,455	234,127	4,477	2,730
Investments – government securities	15	9,479	45	15	15
Cash at bank and in hand		6,516	34,524	81,397	120,639
		<u>384,627</u>	<u>397,462</u>	<u>152,141</u>	<u>158,410</u>
Creditors: amounts falling due within one year	16	<u>(149,740)</u>	<u>(185,690)</u>	<u>(54,859)</u>	<u>(55,861)</u>
Net current assets		<u>234,887</u>	<u>211,772</u>	<u>97,282</u>	<u>102,549</u>
Total assets less current liabilities		<u>415,491</u>	<u>412,814</u>	<u>242,446</u>	<u>250,270</u>
Provisions for liabilities and charges	17	<u>(108,672)</u>	<u>(84,975)</u>	<u>(70,810)</u>	<u>(59,501)</u>
Accruals and deferred income					
Subscriptions in advance		<u>(164,484)</u>	<u>(156,034)</u>	<u>(130,249)</u>	<u>(150,080)</u>
		<u>142,335</u>	<u>171,805</u>	<u>41,387</u>	<u>40,689</u>
Reserves					
Members' Fund	20	128,014	155,189	41,387	40,689
Minority interests	21	<u>14,321</u>	<u>16,616</u>	<u>—</u>	<u>—</u>
		<u>142,335</u>	<u>171,805</u>	<u>41,387</u>	<u>40,689</u>

The financial statements on pages 22 to 44 were approved by the Committee on 3 April 1996 and were signed on its behalf by:


Sir Brian Shaw
CHAIRMAN


Bob Chase
GROUP MANAGING
DIRECTOR


Mark Haszlkiewicz
GROUP FINANCE AND
PLANNING DIRECTOR

Cash flow statements

FOR THE YEAR ENDED 31 DECEMBER 1995

	Note	Group		Association	
		1995 £'000	1994 £'000	1995 £'000	1994 £'000
Net cash inflow/(outflow) from operating activities	22	20,638	34,146	(11,102)	38,054
Returns on investments and servicing of finance					
Dividends received from subsidiary undertakings		—	—	1,175	17,340
Distributions received from associated undertakings		12,180	10,709	—	—
Dividends paid to minority shareholders		(167)	(2,814)	—	—
Net cash inflow from returns on investments and servicing of finance		12,013	7,895	1,175	17,340
Taxation					
UK corporation tax paid		(2,760)	(10,754)	(1,874)	(1,484)
Tax paid		(2,760)	(10,754)	(1,874)	(1,484)
Investing activities					
Purchases of tangible fixed assets		(26,412)	(34,318)	(29,234)	(26,519)
Purchase of subsidiary undertakings (net of cash acquired)		—	(1,721)	—	(100)
Purchase of other investments		(41)	(1,377)	—	(501)
Disposals of tangible fixed assets		4,061	3,980	3,556	3,023
Disposals of unlisted investments		—	1,318	—	443
Net disposals/(purchases) of short-term investments		45,795	7,374	(539)	308
Issue of shares in subsidiary undertakings		166	2,523	—	—
Loans to subsidiary undertakings		—	—	(200)	(1,800)
Loans to associated undertakings		(88)	417	(88)	417
Purchase of shares in associated undertakings		(296)	(567)	(296)	(567)
Net cash inflow/(outflow) from investing activities		23,185	(22,371)	(26,801)	(25,296)
Net cash inflow/(outflow) before financing		53,076	8,916	(38,602)	28,614
Financing					
Repayment of mortgage		(3,500)	—	—	—
Increase/(decrease) in cash and cash equivalents	23	49,576	8,916	(38,602)	28,614
(Decrease)/increase in short-term investments		(45,795)	(7,374)	539	(308)
Increase/(decrease) in net cash balances and short-term investments	24	3,781	1,542	(38,063)	28,306

Short-term investments comprise short-term deposits with original maturity after three months and within one year and government securities held on a short-term basis. Cash equivalents include short-term deposits with an original maturity of within three months.

Notes to the financial statements

31 DECEMBER 1995

1 Analysis of operating income, deficit before taxation and net assets

The analysis by business of the AA Group's operating income, deficit before taxation and net assets is set out below:

	Operating income		Surplus/(deficit) before taxation		Net assets	
	1995 £'000	1994 £'000	1995 £'000	1994 £'000	1995 £'000	1994 £'000
Membership	354,552	336,529	372	7,080	(79,064)	(68,871)
Insurance	103,862	136,824	4,993	(5,010)	(9,751)	(28,896)
Financial Services	16,376	14,245	4,607	7,114	67,602	72,978
Retail	43,026	60,058	(39,072)	(13,211)	(10,033)	14,214
Commercial Services	40,757	35,039	(6,321)	(6,600)	11,092	9,635
The Corporate Group	14	369	(8,554)	(10,617)	158,711	168,974
Inter-business trading	(35,404)	(48,812)	-	-	-	-
	<u>523,183</u>	<u>534,252</u>	<u>(43,975)</u>	<u>(21,244)</u>	<u>138,557</u>	<u>168,034</u>

Share of profits and net assets in associated undertakings:

Financial Services	14,451	13,727	3,778	3,771
Other	-	(404)	-	-
Deficit before taxation	<u>(29,524)</u>	<u>(7,921)</u>		
Net assets			<u>142,335</u>	<u>171,805</u>

The segments shown above reflect the main businesses through which the AA Group operated in 1995. The comparatives have been adjusted, where applicable, to reflect changes in business structure at the beginning of 1995. The net assets represent the operational assets of the business; treasury management is carried out for the whole of the AA Group by The Corporate Group and all cash balances are held within that business; at the end of each year, business surpluses and deficits are transferred to and from The Corporate Group, and the AA Group's reserves are held within that business.

The surplus/(deficit) before taxation figures shown above include the exceptional charges for each business as set out in Note 3.

The AA Group's activities take place principally in one geographical segment, the British Isles.

Notes to the financial statements

31 DECEMBER 1995

2 Net interest receivable and similar income

	Group		Association	
	1995	1994	1995	1994
	£'000	£'000	£'000	£'000
Bank short-term interest receivable	18,957	14,357	337	243
Other interest receivable	700	451	3,064	3,211
Other income	1,395	945	2,414	1,468
	<u>21,052</u>	<u>15,753</u>	<u>5,815</u>	<u>4,922</u>
Interest payable on loans wholly repayable within five years	(449)	(204)	—	—
	<u>20,603</u>	<u>15,549</u>	<u>5,815</u>	<u>4,922</u>

3 Exceptional operating expenditure

The exceptional charges arise from:

	Group	Association
	£'000	£'000
The closure of 97 shops in the Retail business including redundancy (£3.2 million), depreciation (£3.6 million) and property costs (£10.3 million)	18,520	—
Permanent diminution in the value of certain Retail properties, referred to in the Report of the Committee (page 18)	6,997	—
Accelerated depreciation and associated refurbishment costs relating to certain of the AA Group's properties in Basingstoke, referred to in the Report of the Committee (page 18)	10,459	5,730
	<u>35,976</u>	<u>5,730</u>

The exceptional charge in 1994 arose from reorganisations throughout the AA Group and comprised redundancy costs of £20.6 million, relating to the loss of some 1,500 jobs, and other related expenditure of £6.6 million.

These charges arise in the following businesses:

	Group	
	1995	1994
	£'000	£'000
Membership	—	4,100
Insurance	—	14,597
Retail	25,517	3,909
Commercial Services	—	700
The Corporate Group	10,459	3,900
	<u>35,976</u>	<u>27,206</u>

A taxation credit of £5.5 million (1994, £4.3 million) arose from these exceptional items, and the minority interests' share of the results for the year was reduced by £3.4 million (1994, £3.5 million).

Notes to the financial statements

31 DECEMBER 1995

4 Operating deficit

The operating deficit is stated after charging/(crediting):

	Group		Association	
	1995	1994	1995	1994
	£'000	£'000	£'000	£'000
Depreciation of tangible fixed assets (see below)	45,155	29,557	21,200	18,967
Furniture and fittings written off	684	706	438	339
Fees payable to the auditors:				
Audit	326	319	109	97
Other	191	451	137	181
Hire of plant and machinery	2,595	1,992	454	883
Property operating leases	9,755	12,577	1,959	2,037
Subscription income ceded	—	—	52,473	—
Breakdown costs recovered from reinsurer	—	—	(50,546)	—

Depreciation for the AA Group in 1995 includes exceptional depreciation of £13.3 million.

5 Committee emoluments

The remuneration policy for executive and non-executive Committee members is set out in the Report of the Remuneration Sub-committee on pages 13 and 14.

The emoluments of non-executive Committee members during the year were as follows:

	Salary and benefits	
	1995	1994
	£'000	£'000
Sir Brian Shaw	46	43
Sir Ralph Carr-Ellison	77 *	81
Lieut General Sir Norman Arthur	32	31
Sir John Blelloch	26	25
Ann Burdus	16 *	—
Lord Crickhowell	25	25
Sir Brian Jenkins	12 *	—
Sir Kenneth Newman	28	25
Derrick Pease	17 *	33
Michael Pickard	24	20 *
Lady Wilcox	25	25
	<u>328</u>	<u>308</u>

* For part of the year only

The emoluments of Sir Ralph Carr-Ellison were for the period of his chairmanship during 1995 and 1994. Sir Brian Shaw's emoluments as Chairman in 1995 were £5,000.

An additional payment, which is included above, was made to Sir Kenneth Newman, as chairman of the pension trustee companies, having succeeded Derrick Pease on 1 July 1995. Additional travel expenses are paid to Lieut General Sir Norman Arthur, reflecting the cost of his journeys from Scotland to attend meetings of the Committee.

Notes to the financial statements

31 DECEMBER 1995

5 Committee emoluments – continued

The emoluments of executive Committee members during the year were as follows:

	1995 £'000					1994 £'000				
	Bonus					Bonus				
	Salary	schemes	Benefits	Other	Total	Salary	schemes	Benefits	Other	Total
Simon Dyer	265	–	27	–	292	252	7	25	–	284
Bob Chase	203	–	28	107	338	193	5	24	102	324
Kenneth Faircloth	–	–	–	–	–	161	6	40	–	207 *
Mark Haszlakiewicz	119	–	21	42	182	113	3	18	36	170
Pete Johnson	111	–	17	–	128	107	1	15	–	123
Kerry Richardson	144	–	19	–	163	134	4	16	–	154
Frank Thackwray	155	–	30	23	208	145	44	27	–	216
Mark Wood	160	–	15	246	421	120	1	7	549	677 *
	1,157	–	157	418	1,732	1,225	71	172	687	2,155
Pension contributions					198					218
					1,930					2,373

*For part of the year only

As explained in the Report of the Remuneration Sub-committee, all executive Committee members elected to waive their entitlement to a performance-related bonus in 1995, which, in aggregate, amounted to £181,767.

"Other" payments relate to compensation for the earnings cap limit imposed on pension benefits by law and to payments under the AA Group relocation arrangements. Also included are special payments to Mark Wood of £189,000 in 1995 and £506,000 in 1994 to compensate him for share options forfeited when he terminated his previous employment. Pension contributions in respect of Mark Wood, who was the highest paid Committee member, amounted to £17,000 in 1995 and £12,000 in 1994.

At 31 December 1994 there was a loan outstanding to Frank Thackwray amounting to £250,000. The loan, which was a bridging loan under the terms of the AA Group relocation arrangements, did not carry interest and was repayable on demand. The amount of £250,000 was the maximum amount of the loan outstanding during the year and was repaid on 29 March 1995. There were no other loans to Committee members during the year.

Notes to the financial statements

31 DECEMBER 1995

5 Committee emoluments – continued

The number of committee members who served for all or part of the year whose emoluments were within the ranges:

Non-executive Committee members			Executive Committee members		
£'000	1995	1994	£'000	1995	1994
10-15	1	–	120-125	–	1
15-20	2	1	125-130	1	–
20-25	2	1	150-155	–	1
25-30	3	3	160-165	1	–
30-35	1	2	165-170	–	1
40-45	–	1	180-185	1	–
45-50	1	–	205-210	1	1
75-80	1	–	215-220	–	1
80-85	–	1	280-285	–	1
			290-295	1	–
			320-325	–	1
			335-340	1	–
			420-425	1	–
			675-680	–	1

The units accruing under the long-term remuneration scheme are set out below:

	No of units		At end of year	Exercise price per unit £	Unrealised gain £	Date from which exercisable	Expiry date
	At start of the year	Issued during the year					
Simon Dyer	18,900	–	18,900	10.00	25,893	1 March 1996	30 April 1996
	–	19,532	19,532	10.16	23,634	1 March 1996	30 April 1996
Bob Chase	14,475	–	14,475	10.00	19,831	1 March 1997	30 April 2000
	–	14,959	14,959	10.16	18,100	1 March 1998	30 April 2001
Mark Haszlakiewicz	8,475	–	8,475	10.00	11,611	1 March 1997	30 April 2000
	–	8,784	8,784	10.16	10,629	1 March 1998	30 April 2001
Pete Johnson	8,025	–	8,025	10.00	10,994	1 March 1997	30 April 2000
	–	8,194	8,194	10.16	9,915	1 March 1998	30 April 2001
Kerry Richardson	10,088	–	10,088	10.00	13,821	1 March 1997	30 April 2000
	–	10,593	10,593	10.16	12,818	1 March 1998	30 April 2001
Frank Thackwray	10,875	–	10,875	10.00	14,899	1 March 1997	30 April 2000
	–	11,442	11,442	10.16	13,845	1 March 1998	30 April 2001
Mark Wood	3,000	–	3,000	10.00	4,110	1 March 1997	30 April 2000
	–	5,906	5,906	10.16	7,146	1 March 1998	30 April 2001

The unit price at the end of the year was £11.37 (1994, £10.16). In 1994, £2,128 became payable to Kenneth Faircloth on his retirement in respect of 13,301 units allocated to him in 1994, and this was paid in 1995. No other amounts have been paid but, at 31 December 1995, £197,000 (1994, £12,000) was accrued and may be paid out in future years.

Notes to the financial statements

31 DECEMBER 1995

6 Employees

The number of persons employed, including Committee members, at the year-end and the average number for the year are analysed by business as follows:

Average	Group		Association	
	1995	1994	1995	1994
Membership	7,517	7,127	6,787	6,455
Insurance	2,056	2,986	—	—
Financial Services	111	124	—	—
Retail	1,348	1,820	5	13
Commercial Services	713	678	216	202
The Corporate Group	1,092	1,090	911	906
	<u>12,837</u>	<u>13,825</u>	<u>7,919</u>	<u>7,576</u>

At the year-end	Group		Association	
	1995	1994	1995	1994
Membership	7,742	7,182	6,993	6,480
Insurance	1,971	2,267	—	—
Financial Services	108	117	—	—
Retail	1,094	1,534	3	13
Commercial Services	713	696	217	206
The Corporate Group	1,081	1,066	908	878
	<u>12,709</u>	<u>12,862</u>	<u>8,121</u>	<u>7,577</u>

The comparatives have been adjusted, where applicable, to reflect changes in business structure at the beginning of 1995.

Staff costs, including remuneration to Committee members, during the year amounted to:

	Group		Association	
	1995 £'000	1994 £'000	1995 £'000	1994 £'000
Wages and salaries	216,266	219,184	152,705	145,403
Social security costs	16,398	16,977	11,741	11,399
Other pension costs	18,438	18,097	13,420	12,333
	<u>251,102</u>	<u>254,258</u>	<u>177,866</u>	<u>169,135</u>

The staff costs for the Association represent costs directly incurred by the Association. Of these, the following were allocated to subsidiary undertakings:

	1995 £'000	1994 £'000
Wages and salaries	17,623	14,020
Social security costs	1,334	1,051
Other pension costs	1,502	1,120
	<u>20,459</u>	<u>16,191</u>

Notes to the financial statements

31 DECEMBER 1995

7 Share of results of associated undertakings

	1995 £'000	1994 £'000
Group's share of results before taxation of:		
Unlisted associated undertakings	6,258	4,343
Joint venture	8,193	8,980
	<u>14,451</u>	<u>13,323</u>

The AA Group's share of profits of associated undertakings includes dividends receivable from unlisted companies of £4,150,000 (1994, £3,200,000).

8 Taxation on (deficit)/surplus on ordinary activities

The taxation (credit)/charge is made up as follows:

	Group		Association	
	1995 £'000	1994 £'000	1995 £'000	1994 £'000
United Kingdom tax at 33% (1994, 33%)				
Corporation tax	(2,684)	1,775	1,821	2,602
Deferred tax	(341)	(1,625)	388	79
Tax on United Kingdom dividends receivable	-	-	1,248	-
Under/(over) provision in respect of prior years				
Corporation tax	59	(4,284)	(5)	(907)
Deferred tax	738	1,289	230	(4)
	<u>(2,228)</u>	<u>(2,845)</u>	<u>3,682</u>	<u>1,770</u>
Associated undertakings	<u>2,101</u>	<u>1,569</u>	<u>-</u>	<u>-</u>
	<u>(127)</u>	<u>(1,276)</u>	<u>3,682</u>	<u>1,770</u>

The AA Group is exempt from taxation on any surplus arising from those member services which are regarded as mutual activities, but is subject to corporation tax on all other income, including investment income and chargeable gains.

Notes to the financial statements

31 DECEMBER 1995

9 Tangible fixed assets

Group

	Land and buildings			Equipment and motor vehicles	Total
	Freehold	Leasehold			
Cost	£'000	Long £'000	Short £'000	£'000	£'000
At 1 January 1995	58,230	52,648	19,236	178,174	308,288
Additions	2,396	58	421	25,699	28,574
Disposals	(969)	(3,248)	(491)	(15,544)	(20,252)
Reclassifications	–	(12,297)	–	12,297	–
At 31 December 1995	59,657	37,161	19,166	200,626	316,610
Depreciation					
At 1 January 1995	7,194	8,840	6,721	89,932	112,687
Charge for the year	1,027	5,890	10,402	27,836	45,155
Disposals	(578)	(2,268)	(371)	(13,130)	(16,347)
Reclassifications	–	(1,085)	–	1,085	–
At 31 December 1995	7,643	11,377	16,752	105,723	141,495
Net book value					
At 31 December 1995	52,014	25,784	2,414	94,903	175,115
At 31 December 1994	51,036	43,808	12,515	88,242	195,601

Association

Cost					
At 1 January 1995	40,884	38,895	2,293	119,029	201,101
Additions	719	54	129	20,722	21,624
Intra-group transfers	-	-	(1)	(187)	(188)
Disposals	(969)	(3,248)	(72)	(11,078)	(15,367)
Reclassifications	-	(12,297)	-	12,297	-
At 31 December 1995	40,634	23,404	2,349	140,783	207,170
Depreciation					
At 1 January 1995	5,627	6,537	715	55,069	67,948
Charge for the year	718	1,002	87	19,393	21,200
Intra-group transfers	-	-	-	90	90
Disposals	(578)	(2,268)	(72)	(9,546)	(12,464)
Reclassifications	-	(1,085)	-	1,085	-
At 31 December 1995	5,767	4,186	730	66,091	76,774
Net book value					
At 31 December 1995	34,867	19,218	1,619	74,692	130,396
At 31 December 1994	35,257	32,358	1,578	63,960	133,153

Notes to the financial statements

31 DECEMBER 1995

10 Investments in group undertakings

Association

	Shares £'000	Loans £'000	Total £'000
Cost			
At 1 January 1995	12,200	1,800	14,000
Additions	—	1,100	1,100
Repayments	—	(900)	(900)
At 31 December 1995	12,200	2,000	14,200

The principal subsidiary undertakings at 31 December 1995 were:

	Country of incorporation	Description of shares held	Percentage held
Motoring-related services			
Automobile Association Developments Limited *	England	Ordinary £1 shares	100%
Société de Transports Automobiles Rapides SARL	France	Ordinary 200 francs	100%
Bailey Toon Limited	England	Ordinary £1 shares and £1,000 preference shares	100%
Insurance			
Automobile Association Insurance Services Holdings Limited	England	Ordinary £1 shares	75%
Automobile Association Insurance Services Limited	England	Ordinary £1 shares	75%
Automobile Association Protection and Investment Planning Limited	England	Ordinary £1 shares	75%
AA Commercial Insurance Brokers Limited	England	Ordinary £1 shares	75%
Automobile Association Underwriting Services Limited	England	Ordinary £1 shares	100%
A.A. Reinsurance Company (Guernsey) Limited *	Guernsey	Ordinary £1 shares	100%
Fanum Reinsurance Limited	Guernsey	Ordinary 10p shares	90%
Group Services			
Island Communication Services Limited *	Guernsey	Ordinary £1 shares	100%

* Held directly by The Automobile Association.

Until 31 March 1995 the then reinsurance business of the AA Group was carried out through A.A. Reinsurance Company Limited, a company incorporated in Hong Kong. During the year the AA Group established a new subsidiary, A.A. Reinsurance Company (Guernsey) Limited. The whole of the share capital was allotted to A.A. Reinsurance Company Limited in consideration for the transfer of all its assets and business on 31 March 1995. A.A. Reinsurance Company Limited was placed in members' voluntary liquidation on the same date, and the shares were subsequently transferred to The Automobile Association.

Notes to the financial statements

31 DECEMBER 1995

10 Investments in group undertakings – continued

During the year further shares were issued by Automobile Association Insurance Services Holdings Limited, which resulted in a dilution of the AA Group's shareholding of 75.2 per cent at 31 December 1994 to 75 per cent at 31 December 1995.

The principal activity of Fanum Reinsurance Limited, which was incorporated in 1994, is the reinsurance of a proportion of the business conducted by The Automobile Association relating to personal roadside assistance. It commenced trading on 1 January 1995 and a portfolio transfer of £25,071,000 was made at that date.

11 Investments in associated undertakings

Group	Shares at cost £'000	Post- acquisition reserves £'000	Loans £'000	Total £'000
At 1 January 1995	2,071	(906)	2,356	3,521
Additions	296	–	384	680
Repayments	–	–	(296)	(296)
Share of losses	–	(377)	–	(377)
At 31 December 1995	2,367	(1,283)	2,444	3,528

Association	Shares at cost £'000	Loans £'000	Provisions £'000	Total £'000
At 1 January 1995	571	106	(677)	–
Additions	296	384	–	680
Repayments	–	(296)	–	(296)
Movement in provisions	–	–	(384)	(384)
At 31 December 1995	867	194	(1,061)	–

The loans to associated undertakings are substantially unsecured and interest bearing, and have been subordinated to the claims of all creditors.

At 31 December 1995, the AA Group owned 50 per cent of the issued £1 ordinary shares of Automobile Association Financial Services Limited, a company incorporated in England, and had a 50 per cent interest in an unincorporated joint venture, Automobile Association Financial Services, whose principal place of business is in England. The principal business activity of these undertakings is the provision of personal financial services to members of The Automobile Association. Subsequent to the end of the year, the AA Group sold its 50 per cent share in the unincorporated joint venture's Budget Account product to its joint venture partner for £10 million.

In addition, the Association held a 20 per cent interest in the share capital of ARC Transistance SA, a company incorporated in Belgium. The company is owned by a consortium of European motoring organisations and exists to promote and to develop motoring assistance services on a pan-European basis. During the year ARC Transistance SA increased its capital, which was subscribed for by existing shareholders. The cash raised was applied to outstanding loans.

Notes to the financial statements

31 DECEMBER 1995

12 Other investments other than loans

	Group		Association	
	1995	1994	1995	1994
	£'000	£'000	£'000	£'000
Cash deposits	1,311	1,311	438	438
Unlisted investments	650	609	130	130
	<u>1,961</u>	<u>1,920</u>	<u>568</u>	<u>568</u>

The Committee is of the opinion that the unlisted investments are worth not less than the value shown in these financial statements.

13 Stocks

	Group		Association	
	1995	1994	1995	1994
	£'000	£'000	£'000	£'000
Raw materials and consumables	198	183	158	146
Work in progress	1,368	1,499	27	68
Finished goods and goods for resale	6,579	7,197	1,916	2,858
	<u>8,145</u>	<u>8,879</u>	<u>2,101</u>	<u>3,072</u>

14 Debtors

Amounts falling due within one year

	Group		Association	
	1995	1994	1995	1994
	£'000	£'000	£'000	£'000
Trade debtors	72,050	79,074	2,421	1,560
Amounts owed by group undertakings	—	—	56,608	24,576
Amounts owed by associated undertakings	14,149	13,459	14	—
Finance lease receivables	437	148	73	148
Other debtors	19,988	16,327	2,321	3,582
Prepayments and accrued income	11,135	10,724	2,714	2,027
	<u>117,759</u>	<u>119,732</u>	<u>64,151</u>	<u>31,893</u>

Amounts falling due after more than one year

Deferred taxation (note 19)	—	94	—	—
Finance lease receivables	755	61	—	61
Other debtors	1,518	—	—	—
	<u>120,032</u>	<u>119,887</u>	<u>64,151</u>	<u>31,954</u>

Finance lease receivables include £1,119,000 due under hire purchase contracts, secured against those assets being purchased. During the year, a total of £1,125,000 was advanced in relation to these balances, against underlying assets which had a total value of £1,856,000 at the time of the advances.

Notes to the financial statements

31 DECEMBER 1995

15 Investments – government securities

	Group		Association	
	1995	1994	1995	1994
	£'000	£'000	£'000	£'000
Cost	9,479	45	15	15
Market value	9,485	48	17	16

16 Creditors

Amounts falling due within one year

	Group		Association	
	1995	1994	1995	1994
	£'000	£'000	£'000	£'000
Bank loans and overdrafts	817	20,344	817	249
Trade creditors	76,644	78,305	25,833	19,679
Corporation tax	–	–	2,698	2,756
Advance corporation tax	1,269	4,069	–	–
Other taxes and social security	6,054	7,833	5,804	8,654
Other creditors	25,755	31,514	10,207	12,404
Accruals and deferred income	13,370	15,047	9,500	12,119
Unearned premiums	11,579	12,967	–	–
Claims outstanding	14,252	15,611	–	–
	149,740	185,690	54,859	55,861

17 Provisions for liabilities and charges

Group	Pensions and similar obligations (note 18)	Deferred taxation (note 19)	Property provisions	Total
	£'000	£'000	£'000	£'000
At 1 January 1995	79,064	–	5,911	84,975
Included in debtors at 1 January 1995	–	(94)	–	(94)
Charge for the year	19,854	397	17,509	37,760
Utilised in the year	(12,537)	–	(1,432)	(13,969)
At 31 December 1995	86,381	303	21,988	108,672
Association				
At 1 January 1995	55,365	537	3,599	59,501
Charge for the year	14,342	618	5,371	20,331
Utilised in the year	(9,022)	–	–	(9,022)
At 31 December 1995	60,685	1,155	8,970	70,810

Notes to the financial statements

31 DECEMBER 1995

18 Pensions and similar obligations

	Group		Association	
	1995	1994	1995	1994
	£'000	£'000	£'000	£'000
Pensions	73,723	67,479	51,490	46,820
Other retirement benefits	12,658	11,585	9,195	8,545
	<u>86,381</u>	<u>79,064</u>	<u>60,685</u>	<u>55,365</u>

Pensions

Pension schemes for the AA Group's employees are of the defined benefit, final salary type, the assets of which are held in trust funds separate from the AA Group's finances. The schemes are self-administered and funded to cover future pension liabilities (including expected future earnings and pension increases) in respect of service up to the balance sheet date. In addition, salary supplements are paid to employees earning in excess of the pensionable limits allowed under current legislation, designed to compensate them for the reduction in their prospective pension benefits.

The schemes are subject to independent valuations at least every three years, on the basis of which R Watson & Sons, Consulting Actuaries, certify the rates of the employer's contributions which, together with the specified contributions payable by the employees and proceeds from the schemes' assets, are sufficient to fund the benefits payable under the schemes.

The latest actuarial valuations were as at 31 March 1995, using the projected unit credit method. The main long-term actuarial assumptions were that the rate of price inflation would be 5 per cent, the annual rate of return on investments would be 9 per cent, dividends would increase by 4.5 per cent per annum, and that annual increases in pensions and earnings would be 5 per cent and 7 per cent respectively.

The actuarial value of the assets was sufficient to cover 104 per cent of the benefits that had accrued to members, calculated on the basis of pensionable earnings and service at the date of the valuations on an ongoing basis, after allowing for assumed increases in earnings. The actuarial surplus is being spread as a level amount over the average remaining service lives of current employees, which has been assessed at 11 years. The actuarial value of the schemes' assets as at the date of valuation was £522 million.

The charge for the AA Group comprises a regular cost of £22,011,000 (1994, £21,386,000), offset by amortisation of the net actuarial surplus of £3,573,000 (1994, £3,289,000).

Other retirement benefits

The AA Group has a commitment to provide post-retirement private medical insurance cover for certain current and past employees. The provision at 31 December 1995 was established, on an actuarial basis, assuming a 4 per cent per annum real increase in premiums.

Notes to the financial statements

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19 Deferred taxation

The deferred taxation provision and full potential liability/(asset) are set out below:

	1995 Full potential liability/(asset) £'000	1995 Provision made £'000	1994 Full potential liability £'000	1994 Provision made £'000
Group				
Timing differences on				
Fixed assets	5,191	5,226	6,292	6,292
Provision for pensions and similar obligations	(7,337)	(1,286)	(6,783)	(6,476)
Other items	(4,106)	(3,637)	(2,740)	90
Capital gain rolled over	3,766	—	3,761	—
	<u>(2,486)</u>	<u>303</u>	<u>530</u>	<u>(94)*</u>
Association				
Timing differences on				
Fixed assets	645	645	148	148
Other items	510	510	389	389
Capital gain rolled over	1,920	—	1,920	—
	<u>3,075</u>	<u>1,155</u>	<u>2,457</u>	<u>537</u>

* This amount was included in debtors (note 14)

20 Members' Fund

The cumulative amount of goodwill resulting from acquisitions and net of disposals, which has been written off, is £6,226,000 (1994, £6,226,000).

A substantial proportion of the AA Group's reserves is held by subsidiary undertakings. No provision is made in these financial statements for the additional tax which would arise if such reserves were distributed to The Automobile Association.

21 Minority interests

The movement on minority interests during the year is as follows:

	£'000
At 1 January 1995	16,616
Retained deficit for the year	(2,193)
Increase in shareholding during the year	65
Dividends paid	(167)
At 31 December 1995	<u>14,321</u>
Analysed as:	
Equity interests	12,821
Non-equity interests	1,500
	<u>14,321</u>

Notes to the financial statements

31 DECEMBER 1995

22 Reconciliation of operating deficit to net cash inflow/(outflow) from operating activities

	Group		Association	
	1995	1994	1995	1994
	£'000	£'000	£'000	£'000
Operating deficit	(43,975)	(21,244)	(3,441)	(1,298)
New life members' subscriptions	29	43	29	43
Depreciation charges	45,155	29,557	21,200	18,967
Profit on sale of fixed assets	(156)	(71)	(375)	(714)
Provision for pensions and similar obligations	7,317	7,905	5,320	5,745
Other provisions	16,077	1,111	5,371	1,353
Provision for loan to associated undertaking	384	-	384	-
Surplus on issue of shares in subsidiary undertakings	(101)	(139)	-	-
Non cash items	68,676	38,363	31,900	25,351
(Increase)/decrease in:				
Stocks	734	334	971	139
Debtors	2,345	8,516	(17,318)	2,249
Increase/(decrease) in:				
Creditors	(15,621)	3,661	(3,412)	6,827
Subscriptions in advance	8,450	4,473	5,240	4,743
Portfolio transfer (note 10)	-	-	(25,071)	-
Movement in working capital	(4,092)	16,984	(39,590)	13,958
Net cash inflow/(outflow) from operating activities	20,638	34,146	(11,102)	38,054

23 Analysis of changes in cash and cash equivalents during the year

	Cash at bank and in hand	Other cash equivalents	Bank loans/ overdrafts	Total
	£'000	£'000	£'000	£'000
Group				
At 1 January 1994	13,705	99,780	(15,119)	98,366
Net cash inflow/(outflow) for 1994	20,819	(10,178)	(1,725)	8,916
At 31 December 1994	34,524	89,602	(16,844)	107,282
Net cash inflow/(outflow) for 1995	(28,008)	61,557	16,027	49,576
At 31 December 1995	6,516	151,159	(817)	156,858
Association				
At 1 January 1994	92,389	780	(742)	92,427
Net cash inflow/(outflow) for 1994	28,250	(129)	493	28,614
At 31 December 1994	120,639	651	(249)	121,041
Net cash inflow/(outflow) for 1995	(39,242)	1,208	(568)	(38,602)
At 31 December 1995	81,397	1,859	(817)	82,439

Other cash equivalents consist of short-term deposits with an original maturity of within three months.

Notes to the financial statements

31 DECEMBER 1995

24 Analysis of changes in net cash balances and short-term investments

Group	Cash at bank and in hand £'000	Short-term investments £'000	Bank loans/ overdrafts £'000	Total £'000
At 1 January 1994	13,705	251,724	(15,119)	250,310
Net cash inflow/(outflow) for 1994	20,819	(17,552)	(1,725)	1,542
At 31 December 1994	34,524	234,172	(16,844)	251,852
Net cash inflow/(outflow) for 1995	(28,008)	15,762	16,027	3,781
At 31 December 1995	6,516	249,934	(817)	255,633
Association				
At 1 January 1994	92,389	3,182	(742)	94,829
Net cash inflow/(outflow) for 1994	28,250	(437)	493	28,306
At 31 December 1994	120,639	2,745	(249)	123,135
Net cash inflow/(outflow) for 1995	(39,242)	1,747	(568)	(38,063)
At 31 December 1995	81,397	4,492	(817)	85,072

Short-term investments include short-term deposits included in cash equivalents, other short-term deposits with original maturity after three months and within one year, and government securities held on a short-term basis.

25 Commitments

Capital

	Group		Association	
	1995 £'000	1994 £'000	1995 £'000	1994 £'000
Expenditure contracted for	793	4,763	221	4,135
Approved by the Committee but not yet contracted for	39,206	36,620	32,670	27,183
Approved expenditure outstanding	39,999	41,383	32,891	31,318

Notes to the financial statements

31 DECEMBER 1995

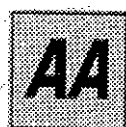
25 Commitments – continued

Operating leases

The commitments to make payments next year are analysed by year of expiry, as follows:

	Land and buildings		Plant and equipment	
	1995	1994	1995	1994
Group	£'000	£'000	£'000	£'000
Next year	403	188	543	376
Second to fifth year from balance sheet date	1,255	998	27	370
Thereafter	8,199	9,453	–	–
	<u>9,857</u>	<u>10,639</u>	<u>570</u>	<u>746</u>
Association				
Next year	83	19	113	89
Second to fifth year from balance sheet date	202	135	27	248
Thereafter	1,456	1,636	–	–
	<u>1,741</u>	<u>1,790</u>	<u>140</u>	<u>337</u>

The commitments for land and buildings include £3,021,000 relating to properties no longer occupied by the AA Group, for which a provision for future lease costs has been established.



Group Mission

I instinctively turn to the
AA - you are always there, easy
to reach and ready to help. You have
standards I can trust and you impress
me more every time you serve me
and solve my problems.

**When every member and
customer can say this,
we will be irresistible**

The Automobile Association Annual General Meeting 1996

NOTICE IS HEREBY GIVEN that the Annual General Meeting of The Automobile Association will be held at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London, on Thursday 23 May 1996 at 11.30am to receive the Report of the Committee and the Accounts and Balance Sheet for the year ended 31 December 1995, to elect members of the Committee, to elect the auditor and to deal with any other business that the meeting is competent to transact.

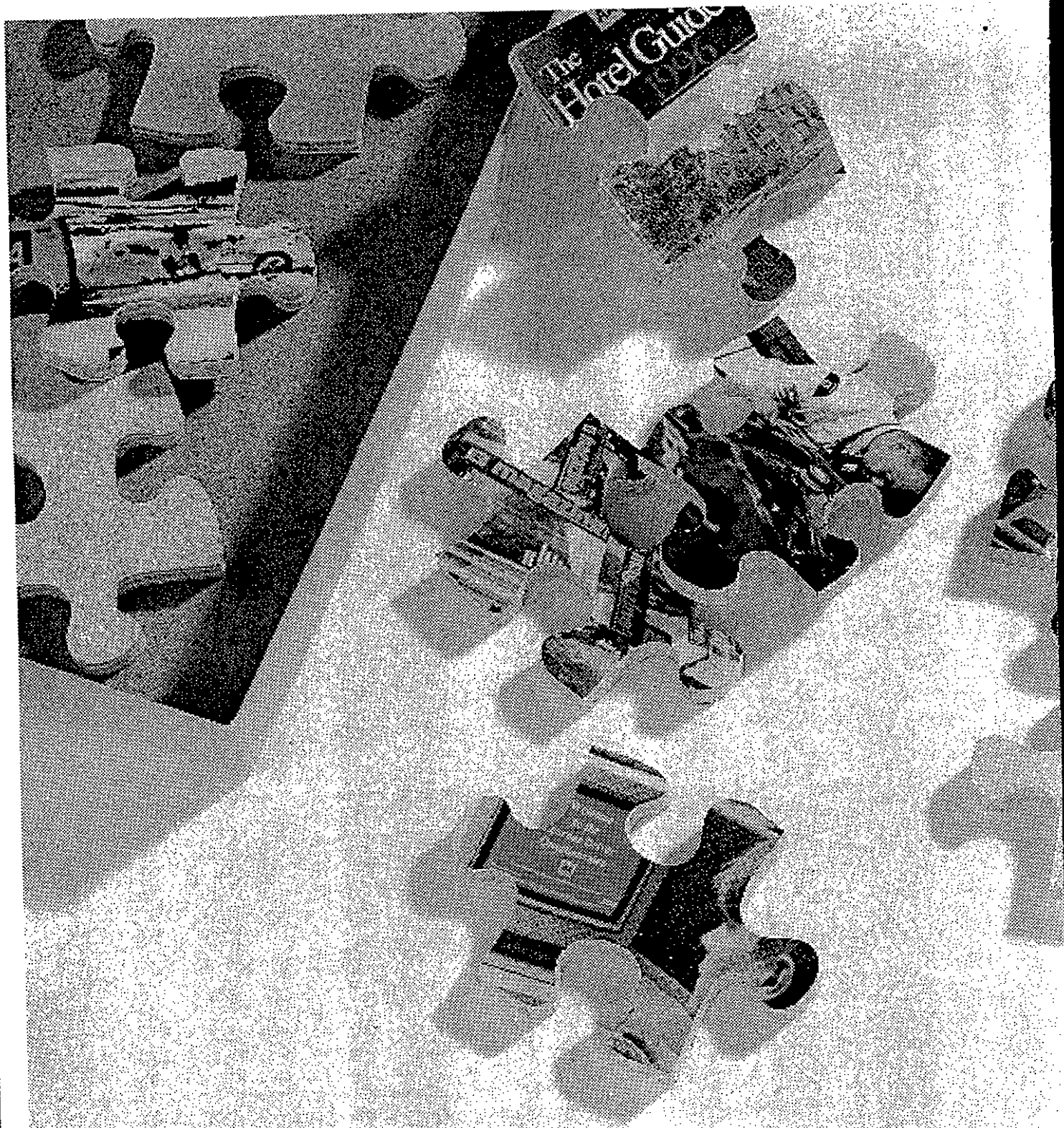
Dated 3 April 1996

Norfolk House
Priestley Road
Basingstoke
Hampshire RG24 9NY

By order of the
Committee of
The Automobile Association
C J SKEEN
Secretary

Copies of the Report and Accounts and any members' resolutions for consideration at the meeting are available to members on application to the Secretary.

Members are reminded to bring their AA membership card with them.



Produced and published by AA Public Relations.
Design, typesetting and pre-press work by AA Public Relations' Editorial Unit.
Cover and inside illustration by Jon Furley. Portrait photography by Derek Cattani and Jon Furley.
Print in England by C W Print Group on environmentally-friendly material that is totally chlorine-free.