

AA FINANCIAL SERVICES LIMITED
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2002



Registered number: 912211

AA FINANCIAL SERVICES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2002

- 1 The directors present their report and audited accounts of AA Financial Services Limited (the "Company") for the year ended 31 December 2002.

2 **REVIEW OF ACTIVITIES AND FUTURE DEVELOPMENTS**

The profit and loss account for the year is set out on page 7. The Company commenced trading on 1 April 2001 and ceased trading on 26 April 2002. The main activity of the Company was the provision of financial advice and associated services.

3 **DIVIDENDS**

The directors do not recommend the payment of a dividend in respect of the year (2001: £nil).

4 **DIRECTORS**

The directors of the Company were as follows:

Centrica Directors Limited	- appointed 28 January 2003
Centrica Secretaries Limited	- appointed 28 January 2003
Andrew Briscoe	- appointed 10 January 2002, resigned 28 January 2003
Colin Pett	- resigned 28 January 2003
David Rollins	- resigned 28 January 2003
Kerry Richardson	- resigned 14 January 2002

5 **DIRECTORS' INTERESTS**

At no time did any director holding office at 31 December 2002 have any interest in the shares of the Company (2001: Nil) or any other company within the Centrica plc Group except for the interests in, and the options over, the shares and interests of the ultimate parent company, Centrica plc, as set out below.

Beneficial Interests in ordinary shares

	As at 31 December 2002	As at 31 December 2001 (or date of appointment)
Andrew Briscoe	8,151	476
David Rollins	95	-

The figures above include shares appropriated under the terms of the Centrica profit sharing scheme, and shares held under the Centrica share incentive plan (SIP) (see below).

AA FINANCIAL SERVICES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2002 (continued)

5 DIRECTORS' INTERESTS (continued)

Sharesave Scheme

	As at 31 December 2002	Exercised during year	Granted during year	As at 31 December 2001
Colin Pett	8,329	-	-	8,329
David Rollins	8,329	-	-	8,329

Options over shares in Centrica plc were granted in April 2002 at an option price of 177.6 pence per share under an all-employee savings-related share option scheme, the Sharesave Scheme (see below).

Executive Share Option Scheme

	As at 31 December 2002	Exercised during year	Granted during year	As at date of appointment
Andrew Briscoe	142,635	-	74,733	67,902

Options were granted on 31 March 2002 at an option price of 224.8 pence under the terms of the Executive Share Option Scheme (see below).

Long Term Incentive Scheme

	As at 31 December 2002	Exercised during year	Granted during year	As at 31 December 2001 (or date of appointment)
Colin Pett	79,293	-	-	79,293
David Rollins	72,728	-	16,014	56,714
Andrew Briscoe	204,619	-	37,366	167,253

Total allocations as at 31 December 2002 shown above include both notional allocation of shares that are subject to performance conditions and awards of shares that have reached the conclusion of the performance period but are subject to a two year retention period.

A notional allocation of shares was made under this scheme on 2 April at a market price at allocation of 227 pence.

Details of the above listed schemes can be found in the 2002 Annual Report for Centrica plc, copies of which can be obtained from the Company Secretary at the address given in Note 15 to these accounts.

The middle market price of Centrica plc ordinary shares on the last day of trading of 2002 (31 December) was 171 pence. The range during the year was 239 pence (high) and 150 pence (low).

AA FINANCIAL SERVICES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2002 (continued)

5 DIRECTORS' INTERESTS (continued)

There were no contracts of significance subsisting during or at the end of the financial period to which the Company or any of its subsidiaries and associated undertakings is a party and in which any director is or was materially interested

6 DIRECTORS' AND OFFICERS' LIABILITY

Directors' and officers' liability insurance has been purchased by the ultimate parent company, Centrica plc.

7 AUDITORS

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, a resolution to appoint its successor, PricewaterhouseCoopers LLP, as auditors to the Company will be proposed at the next board meeting.

BY ORDER OF THE BOARD


S. L. L. L.

FOR AND ON BEHALF OF
CENTRICA SECRETARIES LIMITED
SECRETARY

20TH MAY 2003

Registered Office:
Millstream
Maidenhead Road
Windsor
Berkshire SL4 5GD

AA FINANCIAL SERVICES LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR

PREPARING THE FINANCIAL STATEMENTS

The directors are required by the Companies Act 1985 to prepare financial statements for each year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year.

The directors consider that in preparing the financial statements on pages 7 to 14, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and all applicable accounting standards have been followed. The financial statements have been prepared on a going concern basis.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AA FINANCIAL SERVICES LIMITED

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' Report.

BASIS OF AUDIT 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 directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company'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.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
AA FINANCIAL SERVICES LIMITED**

OPINION

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 December 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
LONDON

20 Mar 2003

AA FINANCIAL SERVICES LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2002

	Notes	2002 £'000	2001 £'00
Turnover	2	16	156
Operating expenses		(89)	(1,474)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	3	<u>(73)</u>	<u>(1,318)</u>
TAXATION ON LOSS ON ORDINARY ACTIVITIES	6	-	
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR		<u>(73)</u>	<u>(1,318)</u>
RETAINED DEFICIT AT 1 JANUARY		(1,349)	
RETAINED DEFICIT AT 31 DECEMBER		<u><u>(1,422)</u></u>	<u><u>(1,349)</u></u>

Loss on ordinary activities before taxation for both 2002 and 2001 relates to discontinued operations.

As the financial statements have been drawn up under the historical cost convention, there is no difference between the profit and loss account, reported above, and its historical cost equivalent.

The Company has no recognised gains or losses in 2002 and 2001, other than those included in the results for the financial years reported above and, therefore, no separate statement of total recognised gains and losses is presented.

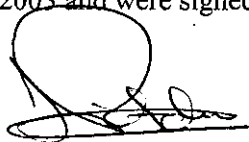
The notes on pages 9 to 14 form part of these financial statements.

AA FINANCIAL SERVICES LIMITED

BALANCE SHEET AT 31 DECEMBER 2002

	Notes	2002 £'000	2001 £'000
FIXED ASSETS			
Tangible Assets	7	<u>-</u>	<u>57</u>
		-	57
CURRENT ASSETS			
Debtors	8	29	371
Cash at bank and in hand		<u>582</u>	<u>575</u>
		611	946
CREDITORS			
(amounts falling due within one year)	9	<u>(33)</u>	<u>(352)</u>
NET CURRENT ASSETS			
		578	594
NET ASSETS			
		<u>578</u>	<u>651</u>
CAPITAL AND RESERVES			
Called up share capital	11	2,000	2,000
Profit and loss account		<u>(1,422)</u>	<u>(1,349)</u>
EQUITY SHAREHOLDERS' FUNDS			
	12	<u>578</u>	<u>651</u>

The financial statements on pages 7 to 14 were approved by the board of directors on 20th MAY 2003 and were signed on its behalf by:



IAN RITCHIE

FOR AND ON BEHALF CENTRICA DIRECTORS LIMITED
DIRECTOR

The notes on pages 9 to 14 form part of these financial statements.

AA FINANCIAL SERVICES LIMITED

NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention and the Companies Act 1985.

A summary of accounting policies is set out below.

Turnover

Turnover relates to commission received from the broking of financial products, and excludes value added tax, insurance premium tax and other interest receivable and similar income. Provision is made at a rate of 5% of commission value to allow for the potential returns of commissions to underwriters in respect of early cancellations.

Fixed assets

Fixed assets are stated at cost, less accumulated depreciation. Cost comprises the purchase price of an asset together with any incidental costs of acquisition. Depreciation is calculated so as to write off the cost of fixed assets, over the expected useful economic lives of the assets concerned. A straight line basis is used, except where additional depreciation is charged in the period when an impairment in value is recognised. The principal annual rates used for this purpose are:

Equipment	20% - 33.33%
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Advertising, promotion and mailing campaign costs

Advertising, promotion and mailing campaign costs are written off as incurred.

Cash flow statement

The Company is a wholly owned subsidiary of Centrica plc, whose consolidated financial statements are publicly available. The Company is, therefore, exempt from the requirement to prepare a cash flow statement under FRS 1 (Revised).

Retirement benefits

Retirement benefits are accounted for in accordance with SSAP 24, Pension Costs. The cost of providing retirement pensions and related benefits is charged to the profit and loss account over the periods benefiting from the employees' services. The difference between the charge to the profit and loss account and the contributions paid to the Pension Schemes, is shown as an asset or liability in the balance sheet. The regular pension cost, variations from the regular pension cost and interest are all charged within employees costs, and the straight-line method is applied for amortising surpluses and interest.

AA FINANCIAL SERVICES LIMITED

NOTES TO THE ACCOUNTS (continued)

1 ACCOUNTING POLICIES (continued)

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods that are different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits in the foreseeable future from which the reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

2 TURNOVER

All of the turnover arises from one class of business within the United Kingdom.

3 LOSS ON ORDINARY ACTIVITIES

The loss on ordinary activities is stated after charging:

	2002 £'000	2001 £'000
Depreciation of tangible fixed assets	7	6
Audit Fees	5	-

Audit fees for the Company were borne by Automobile Association Insurance Services Limited in 2001.

AA FINANCIAL SERVICES LIMITED

NOTES TO THE ACCOUNTS (continued)

4 DIRECTORS' EMOLUMENTS

	2002 £'000	2001 £'000
Director's emoluments	-	89
Amount paid to Director for loss of office	-	50

In 2002 the emoluments of the directors were paid by other group companies. Their services to this Company are of a non-executive nature and their emoluments are deemed to be wholly in respect of their services to those companies.

5 EMPLOYEES

The average number of persons employed by the company during the year was 7 (2001: 12).

Staff costs during the year amounted to:	2002 £'000	2001 £'000
Wages and salaries	37	417
Social security costs	14	28
Other pension costs	21	31
	<u>72</u>	<u>476</u>

6 TAX ON LOSS ON ORDINARY ACTIVITIES

	2002 £'000	2001 £'000
Total tax on ordinary activities	-	-

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax is as follows:

	2002 £'000	2001 £'000
Loss on ordinary activities before tax	<u>(73)</u>	<u>(1,318)</u>
Tax on loss on ordinary activities at standard UK corporation tax rate of 30% (2001: 30%)	(22)	(395)
Effects of:		
Group relief	21	406
Pre-trading expenses	-	(9)
Timing differences not recognised under FRS 19	<u>1</u>	<u>(2)</u>
Current tax charge for the year	<u>-</u>	<u>-</u>

AA FINANCIAL SERVICES LIMITED

NOTES TO THE ACCOUNTS (continued)

7 TANGIBLE ASSETS

	Equipment £'000	Total £'000
Cost		
At 1 January 2002	63	63
Intra-group transfer	(63)	(63)
At 31 December 2002	<u>-</u>	<u>-</u>
Depreciation		
At 1 January 2002	6	6
Charge for the year	7	7
Intra-group transfer	(13)	(13)
At 31 December 2002	<u>-</u>	<u>-</u>
Net book value		
At 31 December 2002	<u>-</u>	<u>-</u>
At 31 December 2001	<u>57</u>	<u>57</u>

8 DEBTORS

(Amounts falling due within one year)

	2002 £'000	2001 £'000
Amounts owed by group undertakings	29	354
Other debtors	-	17
	<u>29</u>	<u>371</u>

9 CREDITORS

(Amounts falling due within one year)

	2002 £'000	2001 £'000
Amounts owed to group undertakings	27	62
Taxation and social security	5	9
Other creditors	1	59
Accruals and deferred income	-	222
	<u>33</u>	<u>352</u>

AA FINANCIAL SERVICES LIMITED

NOTES TO THE ACCOUNTS (continued)

10 PENSIONS AND SIMILAR OBLIGATIONS

The majority of the Company's employees were members of either the Centrica Staff Pension Scheme, the AA Staff Pension Scheme or the Centrica Management Scheme.

These defined benefit schemes are funded to cover pension liabilities in respect of service up to the balance sheet date and their assets are held in separate trustee administered funds. However, it is not possible on a reasonable and consistent basis to identify the Company's share of the underlying assets and liabilities within these schemes, and therefore, as allowed within FRS17, these schemes have been treated for disclosure purposes as defined contribution schemes. The aggregate contributions to the schemes for the Company were paid to the schemes by The Automobile Association Limited, who holds the provision for pension in its accounts. The latest actuarial valuation of the schemes, prepared for the purposes of making the transitional disclosures in accordance with FRS17 in the consolidated financial statements of Centrica plc, show a total deficit of £613 million (£429 million net of deferred tax). Further details of their valuation can be found in the annual report of Centrica plc.

The liabilities under the pension schemes will be paid out over an extended period. The contributions to the pension fund are being made on the basis of actuarial advice as to the amounts required to meet these liabilities in full. This actuarial advice is based on triennial funding valuations, the last of which was at 31 March 2001. As at 1 January 2002, contribution rates to the schemes were increased on the basis of actuarial advice. Since then, current contribution levels have been maintained.

The Company has a commitment to provide post-retirement private medical insurance cover for certain current and past employees. Details relating to the latest actuarial valuations of these arrangements are also contained in the financial statements of Centrica plc. Provisions for these obligations are held centrally by The Automobile Association Limited.

11 CALLED UP SHARE CAPITAL

	2002 £'000	2001 £'000
Ordinary shares of £1 each		
Authorised	<u>3,000</u>	<u>3,000</u>
Issued, called up and fully paid	<u>2,000</u>	<u>2,000</u>

AA FINANCIAL SERVICES LIMITED

NOTES TO THE ACCOUNTS (continued)

12 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2002 £'000	2001 £'000
Loss for the financial year	(73)	(1,318)
Issue of shares during the year	-	1,000
Net reduction to shareholders' funds	(73)	(318)
Shareholders' funds at 1 January	651	969
Shareholders' funds at 31 December	578	651

13 DEFERRED TAXATION

	2002 £'000	2001 £'000
Potential amounts of unrecognised deferred tax liabilities comprise:		
Other timing differences	-	1

There is no deferred taxation recognised in the accounts (2001: £1,000). As required by FRS 19, deferred tax assets are only recognised when there is persuasive and reliable evidence that the assets can be realised. Detailed operating plans covering two years from the balance sheet date are used for deferred tax asset recognition purposes. Potential deferred tax asset utilisation falling outside that planning horizon is not currently recognised on the balance sheet. As encouraged by FRS 19, deferred tax asset recognition will be regularly reassessed.

14 RELATED PARTY TRANSACTIONS

As a wholly owned subsidiary, the Company is exempt from the requirement to disclose related party transactions with other group undertakings under FRS 8 which cancel on consolidation. There are no other related party transactions that require disclosure.

15 ULTIMATE OWNERSHIP

The Company is a wholly owned subsidiary of Automobile Association Insurance Services Holdings Limited, a Company registered in England and Wales.

The ultimate parent undertaking is Centrica plc, whose principal place of business is situated at Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD. Copies of the Annual Report and Accounts of Centrica plc are available from the Company Secretary at this address. Centrica plc is the smallest and largest group to consolidate these financial statements.