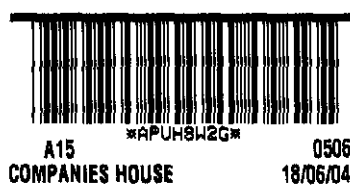


***AA FINANCIAL SERVICES LIMITED***  
***ANNUAL REPORT AND ACCOUNTS***  
***FOR THE YEAR ENDED 31 DECEMBER 2003***



***Registered number: 912211***

## DIRECTORS' REPORT

1 The directors present their report and audited accounts of AA Financial Services Limited (the "Company") for the year ended 31 December 2003.

The profit and loss account for the year is set out on page 5. The Company ceased trading during the year ended 31 December 2002 and is expected to become dormant in 2004.

The directors do not recommend the payment of a dividend in respect of the year (2002: £nil).

The directors of the Company during the year were as follows:

Centrica Directors Limited	- appointed 28 January 2003
Centrica Secretaries Limited	- appointed 28 January 2003
Andrew Briscoe	- resigned 28 January 2003
Colin Pett	- resigned 28 January 2003
David Rollins	- resigned 28 January 2003

At no time did any director holding office at 31 December 2003 have any interest in the shares of the Company (2002: Nil) or any other company within the Centrica plc Group.

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

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors.

FOR AND ON BEHALF OF  
CENTRICA SECRETARIES LIMITED  
SECRETARY

27 MAY 2004  
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 5 to 11, 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 2003 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

LONDON

27 May 2004

**AA FINANCIAL SERVICES LIMITED**

**PROFIT AND LOSS ACCOUNT**

**FOR THE YEAR ENDED 31 DECEMBER 2003**

	<b>Notes</b>	<b>2003 £'000</b>	<b>2002 £'000</b>
Turnover	2	-	16
Operating expenses		-	(89)
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	3	-	(73)
<b>TAXATION ON LOSS ON ORDINARY ACTIVITIES</b>	6	-	-
<b>LOSS ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR</b>		-	(73)
<b>RETAINED DEFICIT AT 1 JANUARY</b>		(1,422)	(1,349)
<b>RETAINED DEFICIT AT 31 DECEMBER</b>		<u>(1,422)</u>	<u>(1,422)</u>

Loss on ordinary activities before taxation for both 2003 and 2002 relate 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.

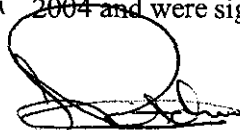
The Company has no recognised gains or losses in 2003 and 2002, other than those included in the results for the financial years reported above and, therefore, no separate statement of total recognised gains and losses is presented.

The notes on pages 7 to 11 form part of these financial statements.

**AA FINANCIAL SERVICES LIMITED**  
**BALANCE SHEET AT 31 DECEMBER 2003**

	Notes	2003 £'000	2002 £'000
<b>CURRENT ASSETS</b>			
Debtors	7	578	29
Cash at bank and in hand		-	582
		<u>578</u>	<u>611</u>
<b>CREDITORS</b>			
(amounts falling due within one year)	8	-	(33)
<b>NET ASSETS</b>		<u>578</u>	<u>578</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	10	2,000	2,000
Profit and loss account		(1,422)	(1,422)
<b>EQUITY SHAREHOLDERS' FUNDS</b>	11	<u>578</u>	<u>578</u>

The financial statements on pages 5 to 11 were approved by the board of directors on 27<sup>th</sup> MAY 2004 and were signed on its behalf by:



IAN RITCHIE

FOR AND ON BEHALF OF CENTRICA DIRECTORS LIMITED  
DIRECTOR

The notes on pages 7 to 11 form part of these financial statements

# AA FINANCIAL SERVICES LIMITED

## NOTES TO THE ACCOUNTS

### 1 ACCOUNTING POLICIES

The accounts 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:

	2003	2002
	£'000	£'000
Depreciation of tangible fixed assets	-	7
Audit Fees	-	5
	<hr/>	<hr/>

In 2003, the audit fee has been borne by another group company.

# AA FINANCIAL SERVICES LIMITED

## NOTES TO THE ACCOUNTS (continued)

### 4 DIRECTORS' EMOLUMENTS

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 nil (2002:7).

Staff costs during the year amounted to:	2003 £'000	2002 £'000
Wages and salaries	-	37
Social security costs	-	14
Other pension costs	-	21
	<u>-</u>	<u>72</u>

### 6 TAX ON LOSS ON ORDINARY ACTIVITIES

	2003 £'000	2002 £'000
Total tax on ordinary activities	<u>-</u>	<u>-</u>

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:

	2003 £'000	2002 £'000
Loss on ordinary activities before tax	<u>-</u>	<u>(73)</u>
<b>Tax on loss on ordinary activities at standard UK corporation tax rate of 30% (2002: 30%)</b>	-	(22)
Effects of:		
Group relief	-	21
Timing differences not recognised under FRS 19	-	1
Current tax charge for the year	<u>-</u>	<u>-</u>

# AA FINANCIAL SERVICES LIMITED

## NOTES TO THE ACCOUNTS (continued)

### 7 DEBTORS

(amounts falling due within one year)	2003	2002
	£'000	£'000
Amounts owed by group undertakings	578	29
	<u>578</u>	<u>29</u>

### 8 CREDITORS

(amounts falling due within one year)	2003	2002
	£'000	£'000
Amounts owed to group undertakings	-	27
Taxation and social security	-	5
Other creditors	-	1
	<u>-</u>	<u>33</u>

### 9 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 future 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 FRS 17, 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, which 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 FRS 17 in the consolidated financial statements of Centrica plc, show a total deficit of £790 million (£551 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. Since then, the Company has continued to take actuarial advice and has increased its contribution levels on 1 January 2002 and on 1 September 2003.

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.

# AA FINANCIAL SERVICES LIMITED

## NOTES TO THE ACCOUNTS (continued)

### 10 CALLED UP SHARE CAPITAL

	2003 £'000	2002 £'000
Ordinary shares of £1 each	<u>3,000</u>	<u>3,000</u>
Issued, called up and fully paid	<u>2,000</u>	<u>2,000</u>

### 11 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	2003 £'000	2002 £'000
Loss for the financial year	-	(73)
Shareholders' funds at 1 January	578	651
<b>Shareholders' funds at 31 December</b>	<u>578</u>	<u>578</u>

### 12 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.

### 13 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 accounts.