

**AUTOMOBILE ASSOCIATION
UNDERWRITING SERVICES LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

Registered Number: 1674675



AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2006

The directors present their report and audited financial statements of Automobile Association Underwriting Services Limited (the "Company") for the year ended 31 December 2006

REVIEW OF ACTIVITIES AND FUTURE DEVELOPMENTS

The Company's profit and loss account for the year is set out on pages 5 and 6

The principal activity of the Company is to transact general insurance business. An analysis of the results by the Company's classes of business is shown in note 2 to the financial statements

During the year, technical income has increased from £39,610,000 to £43,737,000. Profit after tax has increased from £11,884,000 to £12,348,000

DIVIDENDS

The directors do not recommend the payment of a dividend in respect of the year (2005 £nil)

DIRECTORS AND DIRECTORS' INTERESTS

The directors of the Company were as follows

Timothy Parker
Kerry Cooper
Kevin Sinclair
William Treen
Nigel Clark (resigned 28 February 2006)

At no time did any director, holding office at 31 December 2006, have any interest in the shares of the Company, or any other Company within the AA Limited group, except for interests in the shares of the ultimate parent Company, AA Limited (previously AA Top Co Limited)

Details of the interests of Timothy Parker in the shares in the ultimate parent company, AA Limited, are shown in that company's financial statements for 2006

Details of the shareholdings and remuneration of other directors are shown in note 7 to the financial statements

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2006

(continued)

PRINCIPAL RISKS AND UNCERTAINTIES

The most important components of the principal risks and uncertainties impacting the Company are establishing claims provisions, interest rate risk, currency risk, credit risk and liquidity risk

Due to the inherent unpredictable nature of future claims, the formation of provisions for claims incurred but not settled and claims incurred but not yet reported is subject to uncertainty. In calculating provisions for unpaid claims the Company uses various estimation techniques including statistical analysis based on historical experience

Interest rate risk arises from intercompany balances, which bear interest at LIBOR plus a margin, and from financial investments. The directors continually review the Company's exposure to interest rates and take appropriate action to ensure that the risk is appropriate in relation to the financial results of the Company

The Company is exposed to currency risk in respect of transactions with overseas entities. The principal currency to which the Company is exposed to is the Euro. The directors have reviewed the net exposure to foreign exchange risk and have concluded that no hedging is required. This policy is subject to periodic review

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Areas where the Company is exposed to credit risk are –

- ***Amounts due from Insurance intermediaries*** Premiums are received on behalf of the Company by another group company, cash is held centrally, with amounts due held within the Company as an inter-company balance. The directors do not consider that non-payment of these balances is a significant risk to the Company
- ***Reinsurer's share of liabilities***. As primary insurer, the Company cannot discharge its liability if a reinsurer fails to pay a claim. The Company has one treaty reinsurer, which is another group company and is monitored on a regular basis to ensure its financial stability
- ***Investments*** Cash is invested in short-term financial instruments and only deposited with counterparties meeting a "AAA" credit rating requirement set by the Board

Liquidity risk is the risk that cash may not be available to pay obligations when due. Company monies on deposit with the rest of the group are available to meet the Company's liquidity requirements. In addition specific investments of £37m are available at seven days notice and give sufficient time for liquid funds to be available

KEY PERFORMANCE INDICATORS

Given the nature of the business, the Company's directors are of the opinion that analysis using key performance indicators is not necessary for an understanding of the development, performance or position of the business

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2006
(continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 these financial statements, 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.

DISCLOSURE OF INFORMATION TO AUDITORS

In the case of each of the persons who are directors at the time when the report is approved:

- So far as the director is aware, there is no relevant audit information (that is, information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware, and
- The director has taken all the steps that they ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

BY ORDER OF THE BOARD



TIMOTHY PARKER
DIRECTOR
22 March 2007

Registered Office
Fanum House
Basing View
Basingstoke
Hampshire
RG21 4EA

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

We have audited the financial statements of AA Underwriting Services Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland). 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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

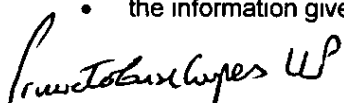
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments 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.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.



PricewaterhouseCoopers LLP
CHARTERED ACCOUNTANTS AND REGISTERED AUDITORS
LONDON, 22 March 2007

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

TECHNICAL ACCOUNT – GENERAL BUSINESS

FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 £'000	2005 £'000
EARNED PREMIUMS, NET OF REINSURANCE			
Gross premiums written	2	51,885	45,497
Outward reinsurance premiums		<u>(4,512)</u>	<u>(4,410)</u>
Net premiums written		47,373	41,087
Change in the gross provision for unearned premiums		(3,707)	1,585
Change in the provision for unearned premiums, reinsurer's share		<u>71</u>	<u>(3,062)</u>
Change in the net provision for unearned premiums		<u>(3,636)</u>	<u>(1,477)</u>
TOTAL TECHNICAL INCOME		<u>43,737</u>	<u>39,610</u>
CLAIMS INCURRED, NET OF REINSURANCE			
Gross claims paid		10,960	13,808
Reinsurer's share		<u>(435)</u>	<u>(1,051)</u>
Net claims paid		10,525	12,757
Change in the gross provision for claims		1,027	(1,164)
Change in the provision for claims, reinsurer's share		<u>(114)</u>	<u>157</u>
Change in the net provision for claims		913	(1,007)
CLAIMS INCURRED, NET OF REINSURANCE		11,438	11,750
Net operating expenses	4	21,193	16,861
TOTAL TECHNICAL CHARGES		<u>32,631</u>	<u>28,611</u>
BALANCE ON THE TECHNICAL ACCOUNT - GENERAL BUSINESS	2	<u>11,106</u>	<u>10,999</u>

The notes on pages 8 to 17 form part of these financial statements

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

PROFIT AND LOSS ACCOUNT (continued)

NON-TECHNICAL ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 £'000	2005 £'000
Balance on the technical account – general business		11,106	10,999
Investment income	5	6,213	5,652
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>17,319</u>	<u>16,651</u>
Taxation on profit on ordinary activities	8	(4,971)	(4,767)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR		<u>12,348</u>	<u>11,884</u>

Profit on ordinary activities before taxation for both 2006 and 2005 relates to continuing 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 on pages 5 and 6 and its historical cost equivalent

The Company has no recognised gains or losses in 2006 or 2005, other than the profit for the financial year, reported on pages 5 and 6, and, therefore, no separate statement of total recognised gains or losses is presented

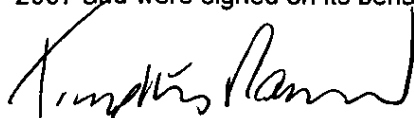
The notes on pages 8 to 17 form part of these financial statements

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

BALANCE SHEET AT 31 DECEMBER 2006

	Notes	2006 £'000	2005 £'000
ASSETS			
INVESTMENTS			
Other financial investments		37,000	37,000
REINSURER'S SHARE OF TECHNICAL PROVISIONS			
Provision for unearned premiums		2,204	2,133
Claims outstanding		<u>735</u>	<u>621</u>
		<u>2,939</u>	<u>2,754</u>
DEBTORS			
Debtors arising out of direct insurance operations	9	584	685
Other debtors	10	<u>74,346</u>	<u>62,497</u>
		<u>74,930</u>	<u>63,182</u>
OTHER ASSETS			
Tangible assets	11	2	4
Cash at bank and in hand		<u>90</u>	<u>227</u>
		<u>92</u>	<u>231</u>
PREPAYMENTS AND ACCRUED INCOME			
Accrued interest and rent		167	144
Deferred acquisition costs		<u>10,224</u>	<u>7,653</u>
		<u>10,391</u>	<u>7,797</u>
TOTAL ASSETS		<u>125,352</u>	<u>110,964</u>
LIABILITIES			
CAPITAL AND RESERVES			
Called up share capital	12	2,500	2,500
Profit and loss account	13	<u>93,214</u>	<u>80,866</u>
EQUITY SHAREHOLDERS' FUNDS	14	<u>95,714</u>	<u>83,366</u>
TECHNICAL PROVISIONS			
Provision for unearned premiums		23,615	19,908
Claims outstanding		<u>3,988</u>	<u>2,961</u>
		<u>27,603</u>	<u>22,869</u>
CREDITORS			
Other creditors including taxation and social security	15	1,016	3,780
ACCRUALS AND DEFERRED INCOME		1,019	949
TOTAL LIABILITIES		<u>125,352</u>	<u>110,964</u>

The financial statements on pages 5 to 17 were approved by the board of directors on 22 March 2007 and were signed on its behalf by



TIMOTHY PARKER
DIRECTOR

The notes on pages 8 to 17 form part of these financial statements

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the Companies Act 1985, and with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ("the ABI SORP") dated December 2005. The financial statements have also been prepared in accordance with applicable UK generally accepted accounting policies, under the historical cost convention and on the going concern basis.

A summary of the principal accounting policies is set out below.

Premiums written

All premiums written relate to business inception in the year and are shown gross of any commission due to intermediaries and exclusive of insurance premium tax. The amount includes an estimate of premiums due but not yet received.

Unearned premiums

The provision for unearned premiums represents that proportion of the premiums written relating to the period of the policy that has not expired at the balance sheet date.

Claims incurred

Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years.

Claims provisions

Provision is made at the year end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Company. The estimated cost of claims includes expenses to be incurred in settling claims. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until some time after the event, giving rise to the claims, has happened. In calculating the estimated cost of unpaid claims the Company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims.

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 ACCOUNTING POLICIES (continued)

Claims provisions (continued)

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the Company has regard to the claim circumstance as reported and information on the cost of settling claims with similar characteristics in previous periods.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions.

Reinsurance written

Reinsurance premiums are brought into the underwriting account on an accruals basis. The proportion of any premium unexpensed at the balance sheet date is carried forward as an unexpensed reinsurance premium balance.

Unexpired risks provisions

The total of unearned premiums and related investment returns in future years is compared with the aggregate estimated future claims and expenses in respect of business in force at the year end. A provision for unexpired risks is created to meet any anticipated deficiency for each grouping of business which is managed together.

Acquisition costs

Acquisition costs, which represent commission and other related expenses, are deferred and amortised over the period in which the related premiums are earned.

Tangible assets

Tangible assets are included in the balance sheet at cost, less accumulated depreciation and any provisions for impairment. Tangible assets are depreciated on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose for equipment are 20% - 33.3%.

Investments

- i) Investment income is the amount receivable for the period, and includes where appropriate, the imputed tax credit.
- ii) Investments are included in the balance sheet at current market value.
- iii) Realised and unrealised investment gains are included in the non-technical account in the period in which they arise.

Cash flow statement

The Company's ultimate parent is AA Limited (previously AA Top Co Limited), whose consolidated financial statements are publicly available. The Company is a wholly owned subsidiary and is therefore exempt from the requirement to prepare a cash flow statement under FRS 1 (Revised).

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (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 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 substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis

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 rates of exchange ruling at the end of the financial year or, if hedged forward, at the rate of exchange under the related forward currency contract. Exchange differences on the translation of assets and liabilities are taken to the technical account – general business together with other exchange differences

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 SEGMENTAL INFORMATION

2006

	Legal Expenses £'000	Assistance £'000	Total £'000
Gross premiums written	23,662	28,223	51,885
Gross premiums earned	23,343	24,835	48,178
Gross claims incurred	(1,223)	(10,764)	(11,987)
Gross operating expenses	(14,814)	(6,379)	(21,193)
Reinsurance balance	(3,892)	-	(3,892)
General business technical result	3,414	7,692	11,106

2005

	Legal Expenses £'000	Assistance £'000	Total £'000
Gross premiums written	23,122	22,375	45,497
Gross premiums earned	22,408	24,674	47,082
Gross claims incurred	(1,902)	(10,742)	(12,644)
Gross operating expenses	(11,493)	(5,368)	(16,861)
Reinsurance balance	(6,578)	-	(6,578)
General business technical result	2,435	8,564	10,999

All gross premiums written are in respect of business concluded in the United Kingdom

Legal premiums reinsured relate to the CAS (Claims Assistance Services) product and are shown at 19 125% of gross premiums written, with related claims reinsured at 50%

The segments reported are in line with FSA general insurance business reporting categories as follows

Assistance – contracts of insurance which relate to vehicle assistance

Legal expenses – Contracts of insurance against the risk of loss to the persons insured attributable to failure of a product, where the purpose of the contract is to put the persons insured in the position as if the manufacturer's or vendor's warranty on the product is extended for a period of time or is extended in scope

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 MOVEMENTS IN PRIOR YEARS' PROVISION FOR CLAIMS OUTSTANDING

A negative run-off deviation of £2,000 was experienced during the year in respect of Assistance and a positive run-off deviation of £842,000 (net of reinsurance) was experienced in respect of Legal expenses (2005 a positive run-off deviation of £527,000 in respect of Assistance and £142,000 in respect of Legal Expenses)

4 NET OPERATING EXPENSES

	2006 £'000	2005 £'000
Policy acquisition costs	22,007	17,746
Change in deferred acquisition costs	(2,571)	(205)
Gross commission	19,436	17,541
Reinsurance commission and profit participation	-	(3,026)
Depreciation	1	1
Other administration costs	1,756	2,345
	<u>21,193</u>	<u>16,861</u>

The Company has no employees. The Company's policies are sold by another group company and it out-sources all its claims management, claims handling and administration to other group companies.

5 INVESTMENT INCOME

	2006 £'000	2005 £'000
Income from other financial investments	1,743	1,826
Income from loans to group companies	4,470	3,826
	<u>6,213</u>	<u>5,652</u>

6 AUDITORS' REMUNERATION

The remuneration of the auditors of the Company for audit services was £45,000 (2005 £45,000)

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 DIRECTORS' EMOLUMENTS AND INTERESTS

	2006	2005
	£'000	£'000
Aggregate emoluments and emoluments of highest paid director	<u>15</u>	<u>5</u>

The emoluments shown relate only to William Treen, whose remuneration was partly in respect of services to the Company. William Treen did not hold any shares in AA Limited at 31 December 2006.

Timothy Parker is a director of the Company's ultimate parent company, AA Limited, and of other subsidiaries within the group. His total emoluments are disclosed in the financial statements of AA Limited. As it is not possible to make an accurate apportionment of his emoluments, no additional disclosure is made within these financial statements.

The other directors are employed by fellow subsidiary companies, their services to the Company are of a non-executive nature and their emoluments are deemed to be wholly in respect of their services to those companies. Accordingly, the Company includes no emoluments in respect of them.

The beneficial interests of the directors in the shares of the ultimate parent company, AA Limited at 31 December 2006 were:

	"A" ordinary shares	"B" ordinary shares
Kerry Cooper	48,500	2,425
Kevin Sinclair	72,500	3,625

The beneficial interests of the directors in subordinated preference certificates held through the employee share trust as at 31 December 2006 were -

	Outstanding At cost 31 December 2005	Redeemed in 2006	Outstanding At cost 31 December 2006	Gain on redemption in 2006
Kerry Cooper	£5,040	£4,245	£745	£816

The beneficial interests of the directors in "B" ordinary shares held through the employee share trust as at 31 December 2006 were -

	"B" ordinary shares
Kerry Cooper	22

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

8 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

The tax charge/(credit) comprises	2006	2005
	£'000	£'000
UK Corporation tax at 30% (2005: 30%)		
-Current year	5,026	4,711
-Prior year	(21)	120
Total current tax	5,005	4,831
Deferred tax:		
-Current year	(18)	(64)
-Prior year	(16)	-
Total deferred tax (note 16)	(34)	(64)
Total tax charge on ordinary activities	4,971	4,767

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

	2006	2005
	£'000	£'000
Profit on ordinary activities before tax	17,319	16,651
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2005 30%)	5,196	4,996
Effects of		
Permanent differences	(188)	(178)
Deferred capital allowances and other short-term timing differences	18	(107)
Adjustment to prior years	(21)	120
Current tax charge for the year	5,005	4,831

9 DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2006	2005
	£'000	£'000
Policyholders	538	624
Salvage and subrogation recoveries	46	61
	584	685

10 OTHER DEBTORS

	2006	2005
	£'000	£'000
Amounts owed by group undertakings	74,248	62,433
Deferred tax asset	98	64
	74,346	62,497

The amounts owed by group undertakings are unsecured, have no repayment terms and bear interest at LIBOR plus a margin

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 TANGIBLE ASSETS

	Equipment £'000
Cost	
At 1 January 2006	7
Additions	1
Disposals	(1)
At 31 December 2006	<u>7</u>
Depreciation	
At 1 January 2006	3
Charge for the year	2
At 31 December 2006	<u>5</u>
Net book value	
At 31 December 2006	<u>2</u>
At 31 December 2005	<u>4</u>

12 CALLED UP SHARE CAPITAL

	2006 £'000	2005 £'000
Ordinary shares of £1 each		
Authorised	10,000	10,000
Issued, called up and fully paid	<u>2,500</u>	<u>2,500</u>

13 PROFIT AND LOSS ACCOUNT

	2006 £'000	2005 £'000
At 1 January	80,866	68,982
Profit for the financial year	12,348	11,884
At 31 December	<u>93,214</u>	<u>80,866</u>

14 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2006 £'000	2005 £'000
Retained profit for the financial year	12,348	11,884
Shareholders' funds at 1 January	83,366	71,482
Shareholders' funds at 31 December	<u>95,714</u>	<u>83,366</u>

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

15 OTHER CREDITORS INCLUDING TAX AND SOCIAL SECURITY

	2006	2005
	£'000	£'000
Bank overdrafts	124	330
Amounts owed to group undertakings	-	2,515
Other taxation and social security	507	368
Other creditors	385	567
	<u>1,016</u>	<u>3,780</u>

The amounts owed by group undertakings are unsecured, have no repayment terms and bear interest at LIBOR plus a margin

16 DEFERRED TAXATION

Deferred tax assets comprise

	Amounts recognised		Amounts unrecognised	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Timing differences on				
Deferred capital allowances	18	13	-	-
Other short term timing differences	80	51	-	-
	<u>98</u>	<u>64</u>	<u>-</u>	<u>-</u>

	2006	2005
	£'000	£'000
Deferred tax provided at 1 January 2006	64	-
Credit to the profit and loss account	34	64
Deferred tax provided at 31 December 2006	<u>98</u>	<u>64</u>

17 CONTINGENT LIABILITIES

The Company is part of a group cross guarantee arrangement whereby it has guaranteed the overdrafts of certain other group undertakings. At 31 December 2006, the Company's exposure under this guarantee was £nil (2005 £10,987)

18 RELATED PARTY TRANSACTIONS

As a wholly owned subsidiary, the Company is exempt from the requirement to disclose related party transactions with other AA Group undertakings under FRS 8 which cancel on consolidation

During the year the Company paid £115,581 (2005 £105,035) in respect of registration fees relating to European breakdown services provided by ARC Transistance S A, a European associate of a sister company in the AA Group. The balance at the year end due to ARC Transistance S A was £11,205 (2005 £34,080)

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

19 ULTIMATE OWNERSHIP

The Company is a wholly owned subsidiary of Automobile Association Developments Limited

The ultimate parent undertaking, which is also the parent of the smallest and largest group to consolidate these financial statements, is AA Limited (previously AA Top Co Limited) whose registered office is at Fanum House, Basing View, Basingstoke, Hampshire, RG21 4EA. Copies of the financial statements of AA Limited are available from the Company Secretary at this address