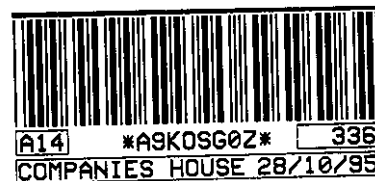


***AUTOMOBILE ASSOCIATION***  
***UNDERWRITING SERVICES LIMITED***  
***ACCOUNTS - 31 DECEMBER 1994***



**AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED****REPORT OF THE DIRECTORS****FOR THE YEAR ENDED 31 DECEMBER 1994**

1. The Directors present herewith the audited financial statements for the year ended 31 December 1994.

2. **REVIEW OF ACTIVITIES**

The Company's profit and loss account for the year is set out on page 4.

The main activity of the Company is unchanged since last year and is principally to transact classes 16 to 18 of 'General Insurance' as defined by Section 1 of the Insurance Companies Act 1982.

Both the level of business and year end financial position were satisfactory and the Directors expect that the present level of activity will be sustained for the foreseeable future.

The Directors do not recommend the payment of a dividend in respect of the year.

3. **DIRECTORS**

The Directors of the Company were as follows:

Simon Dyer CBE	- Chairman
Robert Chase	
Kenneth Faircloth OBE	- retired 25 November 1994
Mark Haszlkiewicz	
Pete Johnson	
Kerry Richardson	
Frank Thackwray	
Mark Wood	- appointed 8 March 1994

4. **INSURANCE OF DIRECTORS**

The AA Group maintains liability insurance for the Directors of Automobile Association Underwriting Services Limited in respect of their duties as Directors of the Company.

5. **DIRECTORS' INTERESTS IN SHARES OF THE COMPANY AND CONTRACTS**

None of the Directors of the Company at the year end and at the date of this report had any beneficial interest in shares of any group company during the year, nor had the Directors any beneficial interest in any contract of significance to which the Company was a party during the year.

6. **FIXED ASSETS**

The movements in fixed assets during the year are set out in note 8 to the financial statements.

## REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 1994 - continued

## 7. DISABLED PERSONS

During the year, the Company gave full consideration to applications for employment from disabled persons, whether registered or not, having regard to their particular aptitude and abilities. Disabled persons employed by the Company participate as appropriate in training and career development schemes. It is the Company'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.

## 8. EMPLOYEE COMMUNICATION AND INVOLVEMENT

Throughout the AA Group, employee communication and consultation schemes operate to increase the effectiveness of the Company'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 other local operational developments. Additionally, within these meetings, employees have the opportunity to raise any other matters relevant to the Company'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 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 upon the success of the AA Group in attaining its long-term strategic aims.



BY ORDER OF THE BOARD

COLIN SKEEN

BASINGSTOKE, 24 MARCH 1995

SECRETARY

**AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED****DIRECTORS' STATEMENT OF RESPONSIBILITY****in relation to financial statements**

The Directors are required by the Companies Act 1985, applicable to insurance companies, to prepare financial statements for each financial year.

The Directors consider that, in preparing the financial statements on pages 4 to 13, 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. 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, as applicable to insurance companies. In addition, 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. The Directors confirm that they have complied with these requirements.

**REPORT OF THE AUDITORS TO THE MEMBERS OF AUTOMOBILE ASSOCIATION  
UNDERWRITING SERVICES LIMITED**

We have audited the financial statements on pages 4 to 13.

**Respective responsibilities of directors and auditors**

As described above, the Company's Directors are 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.

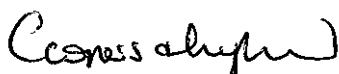
**Basis of opinion**

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 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 have been properly prepared in accordance with the provisions of the Companies Act 1985 applicable to insurance companies.



COOPERS & LYBRAND  
CHARTERED ACCOUNTANTS AND REGISTERED AUDITORS  
SOUTHAMPTON, 24 MARCH 1995

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1994

	Note	1994 £'000	1993 £'000
OTHER INTEREST RECEIVABLE AND SIMILAR INCOME	2	1,389	1,502
UNDERWRITING (LOSS)/PROFIT	3	(607)	226
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>782</u>	<u>1,728</u>
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	6	(726)	(607)
PROFIT FOR THE FINANCIAL YEAR		<u>56</u>	<u>1,121</u>
RETAINED PROFIT AT 1 JANUARY 1994		<u>11,519</u>	<u>10,398</u>
RETAINED PROFIT AT 31 DECEMBER 1994		<u><u>11,575</u></u>	<u><u>11,519</u></u>

All items dealt with in arriving at the profit before taxation for both 1994 and 1993 relate 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 above, and its historical cost equivalent.

The Company has no recognised gains or losses in 1994 and 1993, other than the profit for the financial year reported above and, therefore, no separate statement of total recognised gains or losses is presented.

## AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

## REVENUE ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1994

	1994 £'000	1993 £'000
Gross premiums written	37,656	37,702
Reinsurance ceded	(2,264)	(2,524)
NET PREMIUMS WRITTEN	<u>35,392</u>	<u>35,178</u>
Net unearned premiums at 1 January 1994	12,948	12,168
Net unearned premiums at 31 December 1994	(12,904)	(12,948)
NET PREMIUMS EARNED	<u>35,436</u>	<u>34,398</u>
Gross claims incurred	14,902	14,237
Reinsurance ceded	(804)	(829)
NET INCURRED CLAIMS	<u>14,098</u>	<u>13,408</u>
NET PREMIUMS EARNED LESS NET INCURRED CLAIMS	21,338	20,990
Net expenses	21,371	20,764
Exceptional net expenses (see note 7)	574	-
TOTAL NET EXPENSES	<u>21,945</u>	<u>20,764</u>
UNDERWRITING (LOSS)/PROFIT (see note 3)	<u>(607)</u>	<u>226</u>

**AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED****RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS****FOR THE YEAR ENDED 31 DECEMBER 1994**

	<b>1994</b> <b>£'000</b>	<b>1993</b> <b>£'000</b>
Profit for the financial year	56	1,121
Net addition to shareholders' funds	<u>56</u>	<u>1,121</u>
Opening shareholders' funds	14,019	12,898
Closing shareholders' funds	<u><u>14,075</u></u>	<u><u>14,019</u></u>

## AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

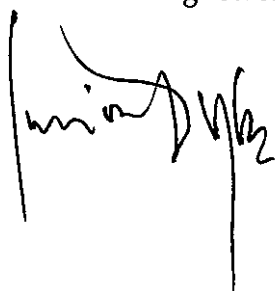
## BALANCE SHEET - 31 DECEMBER 1994

	Note	1994 £'000	1993 £'000
<b>FIXED ASSETS</b>			
Tangible assets	8	366	481
<b>CURRENT ASSETS</b>			
Debtors	9	8,885	9,293
Cash at bank and in hand		<u>29,939</u>	<u>28,176</u>
		38,824	37,469
<b>CREDITORS: amounts falling due within one year</b>	10	<u>(24,233)</u>	<u>(23,145)</u>
<b>NET CURRENT ASSETS</b>		14,591	14,324
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>14,957</u>	<u>14,805</u>
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>			
Pensions and similar obligations	11	<u>(882)</u>	<u>(786)</u>
		<u>14,075</u>	<u>14,019</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	13	2,500	2,500
Profit and loss account		<u>11,575</u>	<u>11,519</u>
<b>EQUITY SHAREHOLDERS' FUNDS</b>		<u>14,075</u>	<u>14,019</u>

The financial statements on pages 4 to 13 were approved by the Board of Directors on 24 March 1995 and were signed on its behalf by:

SIMON DYER

DIRECTOR





## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1994

## 1. ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with applicable Accounting Standards in the United Kingdom; they have been prepared on a consistent basis. These accounts have been prepared in compliance with section 255 and schedule 9A to the Companies Act 1985.

A summary of accounting policies is set out below.

**Premiums**

Premiums are apportioned between periods of account on a time basis over the lives of the policies written and are shown exclusive of insurance premium tax.

**Claims**

Provision is made for the estimated cost of claims notified but not settled by the balance sheet date and of claims incurred but not reported by that date, together with the expected administrative costs of settlement.

**Depreciation**

Depreciation is calculated so as to write off the cost of fixed assets on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Equipment	20% - 33.33%
Motor vehicles	18% - 22%

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%.

**Deferred taxation**

Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise. Timing differences 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 at the rate which is expected to be applied when the liability or asset is expected to crystallise.

**Retirement benefits**

The cost of providing retirement 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 and premiums paid, is shown as an asset or liability in the balance sheet.

**Foreign currencies**

Assets and liabilities expressed in foreign currencies are translated to sterling at rates of exchange ruling at the end of the financial year and differences on exchange are taken to the profit and loss account.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1994 - continued

1. ACCOUNTING POLICIES - continued

**Costs incurred by and on behalf of other group companies**

The Automobile Association and other group companies allocate to the Company costs, which they have incurred on the Company's behalf; similarly, the Company allocates to other group companies costs, which have been incurred on their behalf.

2. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	1994 £'000	1993 £'000
Other interest receivable	<u>1,389</u>	<u>1,502</u>

Other interest receivable arises out of an agreement with the Company's bankers whereby the Company's bank balance is pooled with that of The Automobile Association and other group undertakings.

3. UNDERWRITING (LOSS)/PROFIT

The underwriting (loss)/profit for the year is stated after charging:

	1994 £'000	1993 £'000
Depreciation of tangible fixed assets	165	139
Furniture and fittings written off	1	2
Office equipment written off	1	1
Fees payable to the auditors:		
Audit	28	23
Other	36	19

4. DIRECTORS' EMOLUMENTS

	1994 £'000	1993 £'000
Emoluments of directors, including pension contributions:		
For management services	47	54
Special payments (see below)	7	-
	<u>54</u>	<u>54</u>

The emoluments disclosed above (excluding pension contributions) include amounts paid to:

	1994	1993
The Chairman	<u>£11,177</u>	<u>£15,719</u>
The highest paid director (1993 - The Chairman)	<u>£11,371</u>	<u>£15,719</u>

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1994 - continued

## 4. DIRECTORS' EMOLUMENTS - continued

Number of directors who received emoluments (excluding pension contributions) in the following ranges was:

		1994	1993
		No	No
Nil	- £5,000	4	4
£5,001	- £10,000	2	3
£10,001	- £15,000	2	-
£15,001	- £20,000	-	1

Special payments were made to a director to compensate him for share option rights forfeited when he terminated his previous employment.

## 5. EMPLOYEES

The average number of persons employed by the Company, including executive directors, during the year was 324 (1993, 302).

Staff costs, including remuneration to executive directors, during the year amounted to:

	1994	1993
	£'000	£'000
Wages and salaries	3,457	3,402
Social security costs	259	236
Other pension costs	263	204
	<u>3,979</u>	<u>3,842</u>

These staff costs represent costs directly incurred by the Company; in addition, the following staff costs were allocated to the Company by other group companies, and to other group companies by the Company.

	Allocations in		Allocations out	
	1994	1993	1994	1993
	£'000	£'000	£'000	£'000
Wages and salaries	2,030	2,274	41	40
Social security costs	152	175	3	3
Other pension costs	154	200	3	3
	<u>2,336</u>	<u>2,649</u>	<u>47</u>	<u>46</u>

## 6. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	1994	1993
	£'000	£'000
United Kingdom corporation tax at 33% (1993 33%)		
Current	665	541
Deferred	-	66
Under provision in respect of prior years corporation tax	61	-
	<u>726</u>	<u>607</u>

The tax charge exceeds 33% of the profit for the year because certain provisions do not qualify for relief in the year. Details of the unprovided deferred tax asset in respect of these timing differences are shown in note 12.

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1994 - continued

## 7. EXCEPTIONAL NET EXPENSES

The exceptional charge represents the cost of redundancies and other related expenditure following reorganisations. The taxation charge was reduced by £180,000 arising from this charge.

## 8. TANGIBLE FIXED ASSETS

	Equipment and motor vehicles £'000
<b>Cost</b>	
At 1 January 1994	920
Additions	40
Inter-company transfers	74
Disposals	(73)
At 31 December 1994	<u>961</u>
<b>Depreciation</b>	
At 1 January 1994	439
Charge for the year	165
Inter-company transfers	47
Disposals	(56)
At 31 December 1994	<u>595</u>
<b>Net book value</b>	
At 31 December 1994	<u><u>366</u></u>
<b>At 31 December 1993</b>	<u><u>481</u></u>

## 9. DEBTORS

## Amounts falling due within one year

	1994 £'000	1993 £'000
Trade debtors	1,702	1,641
Amounts owed by group undertakings	389	345
Other debtors	3	73
Prepayments and accrued income	6,791	7,234
	<u><u>8,885</u></u>	<u><u>9,293</u></u>

## AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1994 - continued

## 10. CREDITORS

Amounts falling due within one year

	1994	1993
	£'000	£'000
Trade creditors	763	783
Amounts owed to group undertakings	3,981	3,919
Corporation tax	845	655
Other creditors	277	147
Accruals and deferred income	1,551	927
Unearned premiums	12,904	12,948
Claims outstanding	3,912	3,766
	<u>24,233</u>	<u>23,145</u>

## 11. PENSIONS AND SIMILAR OBLIGATIONS

	1994	1993
	£'000	£'000
At 1 January 1994	786	598
Charge for the year	264	217
Utilised in the year	(168)	(29)
At 31 December 1994	<u>882</u>	<u>786</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.

They 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.

Details relating to the latest actuarial valuation of the schemes are contained in the financial statements of The Automobile Association.

**Other retirement benefits**

The Company has a commitment to provide post-retirement private medical insurance cover to certain current and past employees. The provision of £68,000 at 31 December 1994 (1993, £68,000) was established on an actuarial basis, assuming a 4% per annum real increase in premiums.

## AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1994 - continued

## 12. DEFERRED TAXATION

The deferred taxation provision and full potential asset are set out below:

	1994 Full potential asset £'000	1994 Provision made £'000	1993 Full potential asset £'000	1993 Provision made £'000
Timing differences on				
Fixed assets	(6)	-	6	-
Provisions for pensions and similar obligations	(273)	-	(237)	-
Other items	(609)	-	(390)	-
	<u>(888)</u>	<u>-</u>	<u>(621)</u>	<u>-</u>

## 13. CALLED UP SHARE CAPITAL

	1994 £'000	1993 £'000
Ordinary shares of £1 each		
Authorised	<u>10,000</u>	<u>10,000</u>
Issued, called up and fully paid	<u>2,500</u>	<u>2,500</u>

## 14. ULTIMATE OWNERSHIP

The Company is a wholly owned subsidiary of Automobile Association Developments Limited. The ultimate ownership of Automobile Association Developments Limited is vested in The Automobile Association, whose principal place of business is situated at Norfolk House, Priestley Road, Basingstoke, Hampshire, RG24 9NY.