

***AUTOMOBILE ASSOCIATION  
UNDERWRITING SERVICES LIMITED  
ANNUAL REPORT AND ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2002***



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*Registered Number: 1674675*

**AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED**

**DIRECTORS' REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2002**

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

2 **REVIEW OF ACTIVITIES AND FUTURE DEVELOPMENTS**

The Company's profit and loss account for the year is set out on pages 8 and 9.

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 accounts.

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.

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:

Andrew Briscoe	- appointed 1 July 2002
Douglas Richards	- resigned 1 July 2002
Kerry Richardson	- resigned 1 July 2002
Mark Clare	- resigned 1 July 2002
Nigel Clark	- appointed 1 July 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 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.

**AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED**

**DIRECTORS' REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2002 (Continued)**

**5 DIRECTORS' INTERESTS (Continued)**

**Beneficial Interests in ordinary shares**

	As at 31 December 2002	As at date of appointment
Andrew Briscoe	8,151	476

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).

**Executive Share Option Scheme**

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

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 date of appointment
Andrew Briscoe	204,619	-	-	204,619
Nigel Clark	99,992	-	-	99,992

Total allocations as at 31 December 2002 shown above include both notional allocations 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 2002 at a market price at allocation of 227 pence.

**AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED**

**DIRECTORS' REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2002 (continued)**

**5 DIRECTORS' INTERESTS (continued)**

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 20 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).

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 CREDITOR PAYMENT POLICY**

The Centrica Group aims to pay all of its creditors promptly. The Company complies with the Centrica Group policy, which is to agree the terms of payment at the commencement of business with that supplier, ensure that suppliers are aware of the terms of the payment, and pay in accordance with contractual and other legal obligations.

**7 EMPLOYMENT POLICIES**

The Centrica Group is committed to pursuing an active Equal Opportunities Policy covering recruitment and selection, training and development, appraisal and promotion. The Group recognises the diversity of its employees, its customers and the community at large and seeks to use employees' talents and abilities to the full. This approach extends to the fair treatment of people with disabilities, in relation to their recruitment, training and development. Full consideration is given to the retention of staff who become disabled during employment. The Centrica Group continues to support the Government's New Deal for people with disabilities, the aim of which is to recruit unemployed disabled people and carers into the Group's operations. Centrica's experience is being shared with other UK employers through its membership of the Employers' Forum on Disability.

**AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED**

**DIRECTORS' REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2002 (continued)**

**7 EMPLOYMENT POLICIES (continued)**

The Group continues to support Investors in People.

The Group is committed to effective communications, which it maintains through formal and informal briefings, company magazines, videos, audio tape and electronic media. Formal communications with trades unions take place through regular meetings between representatives from the company and trades unions. The Group has procedures for the timely and accurate communication of financial results and other significant business issues to its employees.

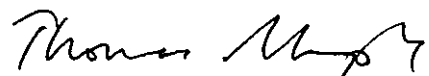
**8 DIRECTORS' AND OFFICERS' LIABILITY**

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

**9 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



THOMAS MURPHY

SECRETARY

25 MARCH 2003

Registered Office:  
Millstream  
Maidenhead Road  
Windsor  
Berkshire SL4 5GD

**AUTOMOBILE ASSOCIATION UNDERWRITING 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 8 to 21, 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  
AUTOMOBILE ASSOCIATION UNDERWRITING 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  
AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED (continued)**

**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 its profit 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

*25 April* 2003

**AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED**

**PROFIT AND LOSS ACCOUNT**

**TECHNICAL ACCOUNT - GENERAL BUSINESS**

**FOR THE YEAR ENDED 31 DECEMBER 2002**

	Notes	2002 £'000	2001 £'000
<b>EARNED PREMIUMS, NET OF REINSURANCE</b>			
Gross premiums written	2	41,478	41,699
Outward reinsurance premiums		(8,475)	(6,953)
Net premiums written		33,003	34,746
Change in the gross provision for unearned premiums		673	(1,719)
Change in the provision for unearned premiums, reinsurer's share		839	375
Change in the net provision for unearned premiums		1,512	(1,344)
<b>TOTAL TECHNICAL INCOME</b>		<b>34,515</b>	<b>33,402</b>
<b>CLAIMS INCURRED, NET OF REINSURANCE</b>			
Gross claims paid		12,302	12,260
Reinsurer's share		(827)	(642)
Net claims paid		11,475	11,618
Change in the gross provision for claims	3	(164)	261
Change in the provision for claims, reinsurer's share		(8)	(18)
Change in the net provision for claims		(172)	243
<b>CLAIMS INCURRED, NET OF REINSURANCE</b>		<b>11,303</b>	<b>11,861</b>
Net operating expenses	4	14,995	14,849
Exceptional operating expenses	5	-	385
Total net operating expenses		14,995	15,234
<b>TOTAL TECHNICAL CHARGES</b>		<b>26,298</b>	<b>27,095</b>
<b>BALANCE ON THE TECHNICAL ACCOUNT - GENERAL BUSINESS</b>		<b>8,217</b>	<b>6,307</b>

The notes on pages 12 to 21 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 2002**

	Notes	2002 £'000	2001 £'000
Balance on the technical account - general business		8,217	6,307
Investment income	6	<u>1,445</u>	<u>1,484</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>9,662</b>	<b>7,791</b>
 <b>TAXATION ON PROFIT ON ORDINARY ACTIVITIES</b>	 10	 -	 (72)
 <b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR</b>		 <u><b>9,662</b></u>	 <u><b>7,719</b></u>
 <b>RETAINED PROFIT AT 1 JANUARY</b>		 <b>42,792</b>	 <b>35,073</b>
 <b>RETAINED PROFIT AT 31 DECEMBER</b>		 <u><u><b>52,454</b></u></u>	 <u><u><b>42,792</b></u></u>

Profit on ordinary activities before taxation for both 2002 and 2001 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 8 and 9 and its historical cost equivalent.

The Company has no recognised gains or losses in 2002 and 2001, other than the profit for the financial year, reported on pages 8 and 9, and, therefore, no separate statement of total recognised gains or losses is presented.

The notes on pages 12 to 21 form part of these financial statements.

**AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED**

**BALANCE SHEET AT 31 DECEMBER 2002**

	Notes	<b>2002</b> £'000	2001 £'000
<b>ASSETS</b>			
<b>INVESTMENTS</b>			
Other financial investments - deposits with credit institutions		<b>40,000</b>	32,000
<b>REINSURER'S SHARE OF TECHNICAL PROVISIONS</b>			
Provision for unearned premiums		<b>4,350</b>	3,511
Claims outstanding		<b>517</b>	509
		<u><b>4,867</b></u>	<u>4,020</u>
<b>DEBTORS</b>			
Debtors arising out of direct insurance operations	11	<b>604</b>	789
Other debtors	12	<b>38,721</b>	32,984
		<u><b>39,325</b></u>	<u>33,773</u>
<b>OTHER ASSETS</b>			
Tangible assets	13	<b>17</b>	52
Cash at bank and in hand		<b>1,531</b>	171
		<u><b>1,548</b></u>	<u>223</u>
<b>PREPAYMENTS AND ACCRUED INCOME</b>			
Accrued interest and rent		<b>9</b>	87
Deferred acquisition costs		<b>3,630</b>	3,101
		<u><b>3,639</b></u>	<u>3,188</u>
<b>TOTAL ASSETS</b>		<u><u><b>89,379</b></u></u>	<u><u>73,204</u></u>

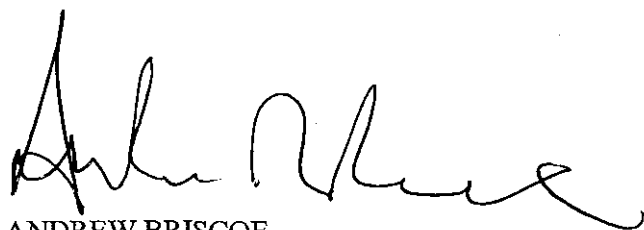
The notes on pages 12 to 21 form part of these financial statements.

**AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED**

**BALANCE SHEET AT 31 DECEMBER 2002 (continued)**

	Notes	2002 £'000	2001 £'000
<b>LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Called up share capital	14	2,500	2,500
Profit and loss account		52,454	42,792
<b>EQUITY SHAREHOLDERS' FUNDS</b>	15	<u>54,954</u>	<u>45,292</u>
<b>TECHNICAL PROVISIONS</b>			
Provision for unearned premiums		20,511	21,184
Claims outstanding		3,463	3,627
		<u>23,974</u>	<u>24,811</u>
<b>CREDITORS</b>			
Creditors arising out of direct insurance operations		202	676
Other creditors including taxation and social security	16	9,644	1,877
		<u>9,846</u>	<u>2,553</u>
<b>ACCRUALS AND DEFERRED INCOME</b>		605	548
<b>TOTAL LIABILITIES</b>		<u>89,379</u>	<u>73,204</u>

The financial statements on pages 8 to 21 were approved by the board of directors on 25 MARCH 2003 and were signed on its behalf by:



ANDREW BRISCOE  
DIRECTOR

The notes on pages 12 to 21 form part of these financial statements.

## **AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED**

### **NOTES TO THE ACCOUNTS**

#### **1 ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with the provisions of Section 255A of, and Schedule 9A to, 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 1998. The financial statements have also been prepared in accordance with applicable accounting standards and under the historical cost convention.

A summary of the accounting policies is set out below.

#### **Premiums**

All premiums written relate to business incepted 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

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**AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED**

**NOTES TO THE ACCOUNTS (continued)**

**I ACCOUNTING POLICIES (continued)**

**Claims provisions (continued)**

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.

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 period.

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.

**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 subject to recoverability and amortised over the period in which the related premiums are earned.

**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.



## AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

### NOTES TO THE ACCOUNTS (continued)

#### 1 ACCOUNTING POLICIES (continued)

##### **Taxation (continued)**

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 substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

##### **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 are:

Equipment	20% - 33.33%
Motor vehicles	18% - 25%

##### **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 employees' service. 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 employee costs, and the straight-line method is applied for amortising surpluses and interest.

**AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED**

**NOTES TO THE ACCOUNTS (continued)**

**1 ACCOUNTING POLICIES (continued)**

**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.

**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.

**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).

**AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED**

**NOTES TO THE ACCOUNTS (continued)**

**2 SEGMENTAL INFORMATION**

2002	Miscellaneous Financial Loss £'000	Legal Expenses £'000	Assistance £'000	Total £'000
Gross premiums written	705	17,174	23,599	41,478
Gross premiums earned	741	15,494	25,916	42,151
Gross claims incurred	(291)	(1,746)	(10,101)	(12,138)
Gross operating expenses	(319)	(5,113)	(9,563)	(14,995)
Reinsurance balance	-	(6,801)	-	(6,801)
<b>General business technical result</b>	131	1,834	6,252	8,217
2001	Miscellaneous Financial Loss £'000	Legal Expenses £'000	Assistance £'000	Total £'000
Gross premiums written	750	13,907	27,042	41,699
Gross premiums earned	736	13,156	26,088	39,980
Gross claims incurred	(302)	(1,315)	(10,904)	(12,521)
Gross operating expenses	(335)	(4,781)	(9,733)	(14,849)
Reinsurance balance	-	(5,918)	-	(5,918)
<b>General business technical result before exceptional expenses</b>	99	1,142	5,451	6,692

All gross premiums written are in respect of direct business and were concluded in the United Kingdom.

# **AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED**

## **NOTES TO THE ACCOUNTS (continued)**

### **3 MOVEMENTS IN PRIOR YEARS' PROVISION FOR CLAIMS OUTSTANDING**

A positive run-off deviation of £637,000 was experienced during the year in respect of Assistance (2001: a positive run-off deviation of £64,000 in respect of Legal expenses and a positive run-off of £586,000 in respect of Assistance).

### **4 NET OPERATING EXPENSES**

	<b>2002</b>	<b>2001</b>
	<b>£'000</b>	<b>£'000</b>
Policy acquisition costs	<b>8,569</b>	8,632
Change in deferred acquisition costs	<b>(529)</b>	(249)
Administration costs	<b>6,955</b>	6,466
Net operating expenses	<u><b>14,995</b></u>	<u>14,849</u>

The total commission incurred during the year was £8,040,000 (2001: £7,768,515). Administration costs include depreciation of £35,000 (2001: £58,000).

### **5 EXCEPTIONAL OPERATING EXPENSES**

Restructuring costs for 2001 primarily related to integration activity following the acquisition of the AA Group in 1999 by Centrica plc.

### **6 INVESTMENT INCOME**

	<b>2002</b>	<b>2001</b>
	<b>£'000</b>	<b>£'000</b>
Income from other financial investments	<u><b>1,445</b></u>	<u>1,484</u>

### **7 AUDITORS' REMUNERATION**

The remuneration of the auditors of the Company for audit services was £30,000 (2001: the audit fees were borne by The Automobile Association Limited).

### **8 DIRECTORS' EMOLUMENTS**

The emoluments of the directors are paid by other group companies. All of the directors were also directors of a number of companies within the Centrica group, and it is not possible to make an accurate apportionment of their emoluments in respect of each of the group companies.

**AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED**

**NOTES TO THE ACCOUNTS (continued)**

**9 EMPLOYEES**

The average number of persons employed by the Company during the year was 70 (2001: 111).

Staff costs during the year amounted to:	<b>2002</b>	2001
	<b>£'000</b>	£'000
Wages and salaries	<b>1,303</b>	1,591
Social security costs	<b>78</b>	99
Other pension costs	<b>171</b>	117
	<u><b>1,552</b></u>	<u>1,807</u>

**10 TAXATION ON PROFIT ON ORDINARY ACTIVITIES**

The tax charge comprises:	<b>2002</b>	2001
	<b>£'000</b>	£'000
Adjustments in respect of prior years	<u>-</u>	<u>72</u>
Total tax on profit on ordinary activities	<u><b>-</b></u>	<u>72</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 profit before tax is as follows:

	<b>2002</b>	2001
	<b>£'000</b>	£'000
Profit on ordinary activities before tax	<u><b>9,662</b></u>	<u>7,791</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2001: 30%)	<b>2,899</b>	2,337
Effects of:		
Depreciation in excess of capital allowances	<b>(1)</b>	2
Utilisation of other short-term timing differences	<b>(15)</b>	6
Group relief surrendered for no consideration	<b>(2,883)</b>	(2,345)
Adjustments to tax charge in respect of previous years	<u>-</u>	<u>72</u>
Current tax charge for the year	<u><b>-</b></u>	<u>72</u>

**11 DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS**

	<b>2002</b>	2001
	<b>£'000</b>	£'000
Policyholders	<b>604</b>	291
Intermediaries	<u>-</u>	<u>498</u>
	<u><b>604</b></u>	<u>789</u>

**AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED**

**NOTES TO THE ACCOUNTS (continued)**

**12 OTHER DEBTORS**

	<b>2002</b>	<b>2001</b>
	<b>£'000</b>	<b>£'000</b>
Amounts owed by group undertakings	36,761	32,521
Other debtors	<u>1,960</u>	<u>463</u>
	<u><b>38,721</b></u>	<u><b>32,984</b></u>

**13 TANGIBLE ASSETS**

	<b>Equipment and motor vehicles £'000</b>
<b>Cost</b>	
At 1 January 2002	389
Disposals	<u>(2)</u>
<b>At 31 December 2002</b>	<u><b>387</b></u>
<b>Depreciation</b>	
At 1 January 2002	(337)
Charge for the year	(35)
Disposals	<u>2</u>
<b>At 31 December 2002</b>	<u><b>(370)</b></u>
<b>Net book value</b>	
<b>At 31 December 2002</b>	<u><b>17</b></u>
At 31 December 2001	<u><b>52</b></u>

**14 CALLED UP SHARE CAPITAL**

	<b>2002</b>	<b>2001</b>
	<b>£'000</b>	<b>£'000</b>
Ordinary shares of £1 each		
Authorised	<u><b>10,000</b></u>	<u><b>10,000</b></u>
Issued, called up and fully paid	<u><b>2,500</b></u>	<u><b>2,500</b></u>

**15 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	<b>2002</b>	<b>2001</b>
	<b>£'000</b>	<b>£'000</b>
Retained profit for the financial year	9,662	7,719
Shareholders' funds at 1 January	<u><b>45,292</b></u>	<u><b>37,573</b></u>
Shareholders' funds at 31 December	<u><b>54,954</b></u>	<u><b>45,292</b></u>

# **AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED**

## **NOTES TO THE ACCOUNTS (continued)**

### **16 OTHER CREDITORS INCLUDING TAX AND SOCIAL SECURITY**

	2002	2001
	£'000	£'000
Bank overdrafts	932	17
Amounts owed to group undertakings	8,279	744
Other taxation and social security	377	288
Other creditors	56	828
	<u>9,644</u>	<u>1,877</u>

### **17 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.

**AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED**

**NOTES TO THE ACCOUNTS (continued)**

**18 DEFERRED TAXATION**

Potential amounts of unrecognised deferred tax (assets) comprise:	<b>2002</b>	<b>2001</b>
	<b>£'000</b>	<b>£'000</b>
Timing differences on:		
Accelerated capital allowances	<b>(29)</b>	<b>(32)</b>
Provisions for pensions and similar obligations	<b>(210)</b>	<b>(214)</b>
Other short term timing differences	<b>(136)</b>	<b>(157)</b>
Deferred corporation tax (asset)	<u><b>(375)</b></u>	<u><b>(403)</b></u>

There is no deferred taxation recognised in the accounts (2001: £ nil). 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.

**19 RELATED PARTY TRANSACTIONS**

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

**20 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 accounts, 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 are available from the Company Secretary at this address.