

AUTOMOBILE ASSOCIATION
INSURANCE SERVICES
HOLDINGS LIMITED
ACCOUNTS - 31 DECEMBER 1996



AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED**REPORT OF THE DIRECTORS****FOR THE YEAR ENDED 31 DECEMBER 1996**

- 1 The directors present the audited financial statements for the year ended 31 December 1996.

2 **REVIEW OF ACTIVITIES AND FUTURE DEVELOPMENTS**

The consolidated profit and loss account for the year is set out on page 8.

The group's main activity is the provision of personal lines insurance intermediary services.

Intense competition in the UK personal lines insurance market continued throughout 1996 and the group's commission income declined as a consequence. To offset this, lower operating expenditure was achieved through tight cost control, and by the use of more efficient systems and processes. The group's net investment income was less than in 1995, due mainly to lower interest rates.

Following an AA Group decision in 1995 to concentrate on personal lines insurance business, the client portfolio of AA Commercial Insurance Services Limited, a subsidiary company, was sold to Rollins Hudig Hall Limited on 10 January 1996 and the company ceased trading with effect from that date.

Benefits from re-organisation, better products and improved information systems will all contribute to providing higher standards of service to customers. The group's continuing commitment is to provide quality products and first class services to AA members and customers through its professional and highly motivated employees.

The directors expect that the group will continue to trade profitably in 1997.

3 **DIVIDENDS**

The directors recommend a final dividend of 74p per share amounting to £15,946,619 (1995 £nil).

4 **DIRECTORS**

The directors of the company are as follows:

John Maxwell	- Chairman, appointed 16 December 1996
Clive Coates	
George Lowe	
Stephen Melcher	
Ian Owen	- appointed 28 November 1996
Kerry Richardson	- appointed 31 October 1996
Barry Smith	- appointed 19 January 1996

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

REPORT OF THE DIRECTORS

FOR YEAR ENDED 31 DECEMBER 1996 - continued

4 DIRECTORS - continued

Simon Dyer was a director and Chairman until his death on 17 February 1996. Bob Chase, who was a director at the beginning of the year, became Chairman on 17 February 1996; he resigned as a director and Chairman on 2 October 1996, when Frank Thackwray was appointed to succeed him as both a director and Chairman. He resigned on 16 December 1996, when John Maxwell was appointed to succeed him as both a director and Chairman. Peter Tyer and Mark Wood were directors until their resignations on 15 January 1996 and 31 October 1996 respectively.

5 DIRECTORS' INTERESTS IN SHARES OF THE COMPANY AND CONTRACTS

None of the directors had any beneficial interest in the shares of any group undertaking during the year and in any contract of significance to which the company was a party during the year.

6 EMPLOYEE COMMUNICATION AND INVOLVEMENT

The AA Group uses employee communication and consultation to increase the effectiveness of the group's operations for the mutual benefit of members, customers and employees. All employees attend monthly briefings to receive information and to give their views on financial performance, business developments, service standards or local operational topics. Additionally, within these meetings, employees have the opportunity to raise any other matters relevant to the group's activities. In accordance with practice agreements which exist with AA recognised trade unions, a variety of matters relating to employees' terms and conditions of employment are jointly kept under review. All employees within the AA Group participate 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 on the success of the group in attaining its long-term strategic aims.

7 PEOPLE WITH DISABILITIES

The AA Group is committed to the principle of equal opportunity in employment and undertakes a number of ongoing projects in support of this policy. This has included extensive communication and training of employees in relation to the group's responsibilities under the Disability Discrimination Act 1995. In addition, the AA Group has joined the Employers' Forum on Disability and has obtained the Employment Service Double Tick standard in all businesses.

Full consideration is given to applications for employment from people with disabilities, whether registered or not, having regard to their particular aptitudes, and abilities. People with disabilities employed by the group participate as appropriate in training and career development schemes. It is the group's policy where an employee becomes disabled while employed, to make arrangements wherever possible for the employee to continue in the same job or to be offered retraining for alternative employment.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

REPORT OF THE DIRECTORS

FOR YEAR ENDED 31 DECEMBER 1996 - continued

8 CHARITABLE DONATIONS

During the year, donations to charities amounted to £3,000 (1995, £nil). No political donations were made.

9 PAYMENT POLICY

The company's policy complies with the CBI's Prompt Payment Code of Good Practice which states that responsible companies should:

- * have a clear and consistent policy that they pay bills in accordance with contract;
- * ensure that the finance and purchasing departments are both aware of this policy and adhere to it;
- * agree payment terms at the outset of a deal and stick to them;
- * not extend or alter payment terms without prior agreement;
- * provide suppliers with clear guidance on payment procedures; and
- * ensure that there is a system for dealing quickly with complaints and disputes and advise suppliers without delay when invoices, or parts of invoices, are contested.



BY THE ORDER OF THE BOARD

C J SKEEN

BASINGSTOKE, 14 MARCH 1997

SECRETARY

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED**DIRECTORS' STATEMENT OF RESPONSIBILITY****IN RELATION TO FINANCIAL STATEMENTS**

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

The directors consider that, in preparing the financial statements on pages 5 to 19, 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. 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 INSURANCE SERVICES HOLDINGS LIMITED**

We have audited the financial statements on pages 5 to 19.

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 give a true and fair view of the state of affairs of the company and the group at 31 December 1996 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand

COOPERS & LYBRAND
CHARTERED ACCOUNTANTS AND REGISTERED AUDITORS
SOUTHAMPTON, 14 MARCH 1997

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention on a consistent basis, except for the cash flow statements, and in accordance with applicable accounting standards in the United Kingdom. The AAISH Group has adopted FRS1 (Revised) and has prepared the cash flow statements accordingly, restating the comparative figures for 1995 where appropriate.

A summary of accounting policies is set out below.

Basis of consolidation

The consolidated financial statements include the company and all its subsidiary undertakings. Intra-group turnover and profits are eliminated on consolidation and all turnover and profit figures relate to external transactions only. Purchased goodwill arising on the acquisition of new subsidiaries represents the excess of the consideration given over the aggregate of the net book values of the separable net assets acquired. The group eliminates goodwill arising on consolidation by write-off against reserves.

Turnover

Turnover represents commissions on insurance policies and income from related credit products. It excludes value added tax, insurance premium tax and other interest receivable and similar income.

Credit is taken for the brokerage receivable on all insurance premiums credited to underwriters in the group's books and for two-thirds of the brokerage on premiums received and processed but not closed to underwriters by the balance sheet date. No credit is taken in respect of premiums invited but not received by the balance sheet date. No provision has been made for the potential release of collected non-life commission on returned premiums in the future. The group has agreed with some underwriters that additional commission may be receivable dependent upon certain underwriting criteria. The credit for these additional amounts is taken when the value is confirmed by the underwriter.

Income from credit products is recognised over the period of the loan with a front end weighting.

Fixed assets

Fixed assets are stated at cost, less accumulated depreciation. Depreciation is calculated so as to write off the cost of fixed assets, other than land, 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 a permanent diminution in value is recognised. The principal annual rates used for this purpose are:

Freehold Buildings	2%
Short leasehold properties	over the period of the leases
Equipment	20% - 33.33%
Motor Vehicles	16% - 22%

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED**ACCOUNTING POLICIES - continued****Fixed assets - continued**

Amortisation of leasehold properties commences on 1 January following occupation. Provision is made in relation to unoccupied properties for future property costs up to the estimated date of final disposal.

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%.

Operating leases

Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Deferred taxation

Provision is made for all material timing differences to the extent that it is probable that a liability or asset will crystallise, at the rate which is then expected to apply.

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 included as an asset or liability in the balance sheet.

Costs incurred by and on behalf of other group companies

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

Advertising, promotion and mailing campaign costs

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

Software

Software costs are written off as incurred, except for purchases from third parties in respect of major systems. In such cases, the costs are written off over a maximum of five years from the date of implementation.

Investments

Investments are stated at cost. Credit is taken for all interest payments due but not received before the year end.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

ACCOUNTING POLICIES - continued

Insurance intermediary assets and liabilities

Certain group undertakings act as agents in the insurance of clients' risks and, generally, are not liable as a principal for premiums due to underwriters nor for claims payable to clients. Notwithstanding the undertakings' legal relationship with clients and underwriters and since, in practice, premiums and claims monies are actually accounted for by insurance intermediaries, it has followed generally accepted accounting practice by showing cash, debtors and creditors relating to insurance business as assets and liabilities of the undertakings themselves.

Exceptional items

Exceptional items are those items that need to be disclosed separately by virtue of their size or incidence. Such items are included within the operating results unless they represent profits or losses on the sale or closure of an operation, costs of a fundamental restructuring or reorganisation and profits or losses on the disposal of major fixed assets, in which case they are shown separately on the income and expenditure account after operating results.

Cash flow

Cash is defined as cash in hand and deposits repayable on demand, less overdrafts repayable on demand. This is a change of definition, following the implementation of FRS 1 (Revised) and the comparatives have been restated accordingly.

Liquid resources are term deposits of less than one year, government securities and shares held in managed funds which are readily convertible to cash.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1996

	Note	1996 £'000	1995 £'000
TURNOVER	1	96,845	103,854
Operating expenditure		(90,809)	(101,285)
Exceptional operating expenditure	2	-	(17,330)
Total operating expenditure		<u>(90,809)</u>	<u>(118,615)</u>
Other interest receivable and similar income	3	5,858	6,827
Interest payable and similar charges	4	(1,239)	(872)
PROFIT/(LOSS) BEFORE TAXATION	5	<u>10,655</u>	<u>(8,806)</u>
TAXATION ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES	8	(1,572)	(633)
PROFIT/(LOSS) FOR THE FINANCIAL YEAR		<u>9,083</u>	<u>(9,439)</u>
DIVIDENDS	9	(15,947)	-
RETAINED DEFICIT FOR THE YEAR		<u>(6,864)</u>	<u>(9,439)</u>
RETAINED PROFIT AT 1 JANUARY 1996		<u>24,851</u>	<u>34,290</u>
RETAINED PROFIT AT 31 DECEMBER 1996		<u>17,987</u>	<u>24,851</u>

All items dealt with in arriving at the results before taxation for both 1996 and 1995 relate to continuing operations.

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

The company has no recognised gains or losses in 1996 and 1995, other than the results for the financial years reported above and, therefore, no separate statement of total recognised gains or losses is presented.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

BALANCE SHEETS - 31 DECEMBER 1996

		GROUP		COMPANY	
	Note	1996 £'000	1995 £'000	1996 £'000	1995 £'000
FIXED ASSETS					
Tangible assets	11	18,720	21,551	-	-
Investments in group undertakings	12	-	-	126,411	126,411
Other investments other than loans	13	452	452	-	-
		<u>19,172</u>	<u>22,003</u>	<u>126,411</u>	<u>126,411</u>
CURRENT ASSETS					
Debtors	14	69,506	60,939	15,960	-
Investments	15	63,750	52,805	-	-
Cash at bank and in hand		6,322	3,208	5,708	5,534
		<u>139,578</u>	<u>116,952</u>	<u>21,668</u>	<u>5,534</u>
CREDITORS: amounts falling due within one year	16	(96,841)	(66,096)	(16,099)	(168)
NET CURRENT ASSETS		<u>42,737</u>	<u>50,856</u>	<u>5,569</u>	<u>5,366</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		61,909	72,859	131,980	131,777
CREDITORS: amounts falling due after more than one year	17	(15,120)	-	-	-
PROVISIONS FOR LIABILITIES AND CHARGES	18	(5,806)	(25,012)	-	-
NET ASSETS		<u>40,983</u>	<u>47,847</u>	<u>131,980</u>	<u>131,777</u>
CAPITAL AND RESERVES					
Called up share capital	21	21,549	21,549	21,549	21,549
Share premium account	22	1,447	1,447	1,447	1,447
Capital reserve	22	-	-	105,000	105,000
Profit and loss account		17,987	24,851	3,984	3,781
EQUITY SHAREHOLDERS' FUNDS	23	<u>40,983</u>	<u>47,847</u>	<u>131,980</u>	<u>131,777</u>

The financial statements on pages 5 to 19 were approved by the Board of directors on 14 March 1997 and were signed on its behalf by:

JOHN MAXWELL

KERRY RICHARDSON

DIRECTORS

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 1996

	Note	1996 £'000	1995 £'000
Net cash inflow from operating activities	25	6,981	1,874
Taxation			
UK corporation tax inflow		-	844
UK corporation tax outflow		(2,918)	(214)
		<u>(2,918)</u>	<u>630</u>
Capital expenditure and financial investment			
Sale of tangible fixed assets		1,435	9,821
Purchase of tangible fixed assets		(456)	(2,541)
		<u>979</u>	<u>7,280</u>
Management of liquid resources			
Purchase of current asset investments		(10,945)	(7,415)
		<u>(10,945)</u>	<u>(7,415)</u>
Financing			
Issue of shares		-	166
Repayment of bank loan		-	(3,500)
		<u>-</u>	<u>(3,334)</u>
Decrease in cash	26	<u>(5,903)</u>	<u>(965)</u>

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996

1 TURNOVER

All of the turnover and results of the group arise from one class of business within the UK.

2 EXCEPTIONAL OPERATING EXPENDITURE

The exceptional charge in 1995 arose from the closure of 93 shops (£16.8 million) and a permanent diminution in the value of certain properties (£2.6 million), offset by the release of an over provision of £2.1 million for the previous year's reorganisation.

The taxation charge in 1995 was reduced by £3.8 million arising from this charge.

3 OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	1996	1995
	£'000	£'000
Bank interest receivable	4,218	4,874
Other interest receivable	887	622
Other income	753	1,331
	<u>5,858</u>	<u>6,827</u>

4 INTEREST PAYABLE AND SIMILAR CHARGES

	1996	1995
	£'000	£'000
Other interest payable	<u>1,239</u>	<u>872</u>

The AAISH Group's bank balances are pooled with those of The Automobile Association and other AA Group undertakings for AA Group treasury management purposes, in agreement with the group's bankers. The AAISH Group receives and/or pays interest on its balances to or from other AA Group undertakings at a commercial rate.

5 PROFIT/(LOSS) BEFORE TAXATION

The profit/(loss) before taxation is stated after charging:

	1996	1995
	£'000	£'000
Depreciation of tangible fixed assets	1,654	8,567
Furniture and fittings written off	14	85
Fees payable to the auditors:		
Audit (parent company £5,300 1995 £5,300)	103	104
Other	27	26
Operating leases	2,613	3,516

Depreciation in 1995 included exceptional depreciation of £5.6 million.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996 - continued

6 DIRECTORS' EMOLUMENTS

	1996 £'000	1995 £'000
Emoluments of directors, including pension contributions:		
For management services	473	455
Special payments (see below)	-	135
	<u>473</u>	<u>590</u>
Compensation for loss of office, including pension contributions	44	-
	<u>517</u>	<u>590</u>

The emoluments disclosed above (excluding pension contributions and compensation for loss of office) include amounts paid to:

	1996	1995
The Chairmen		
from 1 January to 17 February 1996	<u>£11,916</u>	-
from 18 February to 2 October 1996	<u>£40,551</u>	-
from 3 October to 16 December 1996	<u>£22,030</u>	-
from 17 December to 31 December 1996	-	-
from 1 January to 31 December 1995	-	<u>£37,960</u>
The highest paid director	<u>£108,497</u>	<u>£253,289</u>

Number of directors whose emoluments were within the ranges:

	No	No
Nil - £5,000	5	2
£10,001 - £15,000	2	-
£20,001 - £25,000	1	-
£35,001 - £40,000	-	1
£45,001 - £55,000	1	-
£65,001 - £70,000	-	1
£85,001 - £90,000	-	1
£90,001 - £95,000	-	1
£100,001 - £105,000	1	-
£105,001 - £110,000	2	-
£250,001 - £255,000	-	1

In 1995, special payments were made to a director to compensate him for share option rights forfeited when he terminated his previous employment.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996 - continued

7 EMPLOYEES

The average number of persons employed by the group including executive directors, during the year was 1,793 (1995, 2,039).

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

	1996 £'000	1995 £'000
Wages and salaries	18,557	19,576
Social security costs	1,169	1,311
Other pension costs	1,426	1,478
	<u>21,152</u>	<u>22,365</u>

8 TAXATION ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

	1996 £'000	1995 £'000
United Kingdom corporation tax at 33% (1995, 33%)		
Current	3,062	596
(Over)/under provision in respect of prior years		
Corporation tax	(1,490)	37
	<u>1,572</u>	<u>633</u>

9 DIVIDENDS

	1996 £'000	1995 £'000
Ordinary:		
Proposed final dividend of 74p per share (1995, nil)	<u>15,947</u>	<u>-</u>

10 PROFIT OF AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

Of the consolidated profit for the year of £9,083,000 (1995, loss £9,439,000), a profit of £16,150,000 (1995, £181,000) is dealt with in the financial statements of the parent company. As permitted by Section 230 of the Companies Act 1985, a separate profit and loss account dealing with the results of the parent company only has not been presented.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996 - continued

11 TANGIBLE FIXED ASSETS

Group	Land and Buildings Freehold £'000	Short leasehold £'000	Equipment and motor vehicles £'000	Total £'000
Cost				
At 1 January 1996	18,886	9,453	12,032	40,371
Additions	63	-	370	433
Intra AA Group transfers	-	1	(4,973)	(4,972)
Disposals	-	(724)	(925)	(1,649)
At 31 December 1996	18,949	8,730	6,504	34,183
Depreciation				
At 1 January 1996	1,877	9,428	7,515	18,820
Charge for the year	309	1	1,344	1,654
Intra AA Group transfers	-	1	(3,476)	(3,475)
Disposals	-	(719)	(817)	(1,536)
At 31 December 1996	2,186	8,711	4,566	15,463
Net book value				
At 31 December 1996	16,763	19	1,938	18,720
At 31 December 1995	17,009	25	4,517	21,551

In the opinion of the directors, the current open market value on an existing use basis of the freehold and leasehold land and buildings was approximately £0.4 million less than the amount of £16.8 million at which they are included in the balance sheet at 31 December 1996. The directors consider that this shortfall does not reflect a permanent diminution in the value of these assets to the group.

12 FIXED ASSET INVESTMENTS

	1996 £'000	1995 £'000
Shares in group undertakings		
Shares at cost	126,411	126,411

The following companies, incorporated in England, are wholly owned by the company, except as indicated.

Name	Principal Business Activity
Automobile Association Insurance Services Limited	Insurance intermediary services
Automobile Association Protection and Investment Planning Limited	Independent life broking and financial advisory services
AA Commercial Insurance Services Limited (formerly AA Commercial Insurance Brokers Limited)	Insurance broking
A.A. Insurance Services Limited *	Dormant

* This company is a wholly owned subsidiary of Automobile Association Insurance Services Limited.

All shares held are ordinary £1 shares.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996 - continued

13 OTHER INVESTMENTS OTHER THAN LOANS

	1996	1995
	£'000	£'000
Cash deposits	437	437
Government securities (market value £16,000, 1995, £17,000)	15	15
	<u>452</u>	<u>452</u>

14 DEBTORS

Amounts falling due within one year

	GROUP		COMPANY	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Trade debtors	53,484	53,175	-	-
Amounts owed by group undertakings	239	1,018	-	-
Dividends receivable	-	-	15,960	-
Other debtors	5,522	5,114	-	-
Prepayments and accrued income	1,332	1,024	-	-
	<u>60,577</u>	<u>60,331</u>	<u>15,960</u>	<u>-</u>

Amounts falling due after
more than one year

	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Advance corporation tax	3,990	-	-	-
Other debtors	354	608	-	-
Prepayments and accrued income	4,585	-	-	-
	<u>69,506</u>	<u>60,939</u>	<u>15,960</u>	<u>-</u>

15 INVESTMENTS

	GROUP		COMPANY	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Short-term investments	<u>63,750</u>	<u>52,805</u>	<u>-</u>	<u>-</u>

16 CREDITORS

Amounts falling due within one year

	GROUP		COMPANY	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Bank loans and overdrafts	9,017	-	-	-
Trade creditors	37,448	41,904	-	-
Amounts owed to group undertakings	26,145	13,953	57	81
Corporation tax	-	1,110	90	86
Other taxes and social security	286	75	-	-
Other creditors	6,541	8,218	5	1
Accruals and deferred income	1,457	836	-	-
Dividends payable	15,947	-	15,947	-
	<u>96,841</u>	<u>66,096</u>	<u>16,099</u>	<u>168</u>

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996 - continued

17 CREDITORS

Amounts falling due after more
than one year

	GROUP		COMPANY	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Amounts owed to group undertakings	11,130	-	-	-
Advance corporation tax	3,990	-	-	-
	<u>15,120</u>	<u>-</u>	<u>-</u>	<u>-</u>

18 PROVISIONS FOR LIABILITIES AND CHARGES

	Pensions and similar obligations (note 19)	Property provisions	Total
GROUP	£'000	£'000	£'000
At 1 January 1996	17,023	7,989	25,012
Charge for the year	1,530	351	1,881
Utilised in the year	(1,375)	(2,303)	(3,678)
Transferred to The Automobile Association	(17,178)	-	(17,178)
Released in the year	-	(231)	(231)
At 31 December 1996	<u>-</u>	<u>5,806</u>	<u>5,806</u>

19 PENSIONS AND SIMILAR OBLIGATIONS

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 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 the group's consulting actuary, certifies 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.

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 contained in the financial statements of The Automobile Association. The provisions for pensions and similar obligations are now held centrally by The Automobile Association on behalf of all group undertakings.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996 - continued

20 DEFERRED TAXATION

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

	1996 Full potential liability/ (asset) £'000	1996 Provision made £'000	1995 Full potential liability/ (asset) £'000	1995 Provision made £'000
GROUP				
Timing differences on				
Fixed assets	3,751	3,753	3,939	3,954
Provisions for pensions and similar obligations	(5,064)	(2,494)	(5,040)	(383)
Other items	(1,311)	(1,259)	(3,624)	(3,571)
Capital gains rolled over	134	-	-	-
	<u>(2,490)</u>	<u>-</u>	<u>(4,725)</u>	<u>-</u>

21 CALLED UP SHARE CAPITAL

	1996 £'000	1995 £'000
Ordinary shares of £1 each		
Authorised	<u>30,000</u>	<u>30,000</u>
Issued, called up and fully paid	<u>21,549</u>	<u>21,549</u>

22 UNDISTRIBUTABLE RESERVES

	GROUP Share premium account £'000	COMPANY Share premium account £'000	Capital reserve £'000
At 1 January 1996 and 31 December 1996	<u>1,447</u>	<u>1,447</u>	<u>105,000</u>

The cumulative amount of goodwill, which has all been written off against the share premium account, is £105 million (1995, £105 million).

23 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1996 £'000	1995 £'000
Profit/(loss) for the financial year	9,083	(9,439)
New share capital issued	-	166
Dividends payable	(15,947)	-
Net reduction in shareholders' funds	<u>(6,864)</u>	<u>(9,273)</u>
Shareholders' funds at 1 January 1996	47,847	57,120
Shareholders' funds at 31 December 1996	<u>40,983</u>	<u>47,847</u>

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996 - continued

24 COMMITMENTS

Guarantees

The company is part of a group cross guarantee arrangement whereby it has guaranteed the overdrafts of certain other group undertakings and other group undertakings have guaranteed the company's overdraft. At 31 December 1996, the company's exposure under this guarantee was £20,934,000 (1995, £10,497,000).

	GROUP		COMPANY	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Capital				
Expenditure contracted for	84	4	-	-

Operating leases

The group is committed to make payments next year, analysed by the year of expiry, as follows:

	Land and buildings	
GROUP	1996	1995
	£'000	£'000
Next year	116	150
Second to fifth year from balance sheet date	457	574
Thereafter	2,997	3,179
	<u>3,570</u>	<u>3,903</u>

The commitments for land and buildings include £1,729,000 relating to properties no longer occupied by the group, for which a provision for future lease costs has been established.

25 RECONCILIATION OF PROFIT/(LOSS) BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1996	1995
	£'000	£'000
Profit/(loss) before taxation	10,655	(8,806)
Depreciation charges	1,654	8,567
Loss on sale of fixed assets	175	196
Provisions for liabilities and charges	(19,206)	8,583
(Increase)/decrease in debtors	(4,341)	9,652
Increase/(decrease) in creditors	18,044	(16,318)
Net cash inflow from operating activities	<u>6,981</u>	<u>1,874</u>

26 RECONCILIATION OF NET CASH FLOWS TO MOVEMENT IN NET FUNDS

	1996
	£'000
Decrease in cash in the year	(5,903)
Cash outflow from increase in liquid resources	<u>10,945</u>
Movement in net funds in the year	5,042
Net funds at 1 January 1996	56,013
Net funds at 31 December 1996	<u>61,055</u>

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996 - continued

27 ANALYSIS OF NET FUNDS

	At 1 January 1996 £'000	Cash flows £'000	At 31 December 1996 £'000
Cash at bank and in hand	3,208	3,114	6,322
Bank overdrafts	-	(9,017)	(9,017)
	<u>3,208</u>	<u>(5,903)</u>	<u>(2,695)</u>
Current asset investments	52,805	10,945	63,750
	<u>56,013</u>	<u>5,042</u>	<u>61,055</u>

28 RELATED PARTY TRANSACTIONS

During the year, in addition to those transactions disclosed separately in the accounts, the group had the following transactions with related parties:

At 31 December 1996 75 per cent of the share capital of Automobile Association Insurance Services Holdings Limited was held by the AA Group. During 1996 commission costs of £3,908,000 were payable to the AA Group, whilst commission income of £7,178,000 was receivable from them. In addition interest of £1,238,000 was payable to and £877,000 receivable from the AA Group. The management charge for support functions provided by the AA Group in 1996 was £19,246,000. At the year end £37,275,000 was payable to, and £239,000 was receivable from the AA Group.

The remaining 25 per cent of share capital is held by the Eagle Star Group. In 1996 commission income of £15,068,000 was receivable from the Eagle Star Group. At 31 December 1996 premiums of £6,949,000 were payable to and commission income of £2,595,000 was receivable from Eagle Star.

29 ULTIMATE OWNERSHIP

The company is a subsidiary of Automobile Association Developments Limited, a company registered in England and Wales. The ultimate ownership of Automobile Association Developments Limited is vested in The Automobile Association. Their principal places of business are both situated at Norfolk House, Priestley Road, Basingstoke, Hampshire, RG24 9NY.