

AUTOMOBILE ASSOCIATION
INSURANCE SERVICES LIMITED
ACCOUNTS - 31 DECEMBER 1997



AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED**REPORT OF THE DIRECTORS****FOR THE YEAR ENDED 31 DECEMBER 1997**

- 1 The directors present the audited financial statements for the year ended 31 December 1997.

2 **REVIEW OF ACTIVITIES AND FUTURE DEVELOPMENTS**

The profit and loss account for the year is set out on page 5.

The main activity of the company is the provision of personal lines insurance intermediary services.

Against the background of fierce competition in the UK personal lines insurance market, the company achieved a small rise in turnover in 1997. Marketing initiatives and operational improvements were successful in increasing the size of the customer portfolio, which offset the detrimental effect of continuing premium deflation. Costs rose marginally, due mainly to higher promotional and systems expenditure. Net investment income was more than in 1996 principally because of higher interest rates.

Systems improvement, process re-engineering projects and employee training will all enable the group to deliver better standards of service in future. The company's commitment is to provide quality products and first class services to AA members and customers through its professional and highly motivated workforce.

The directors expect the company to continue trading profitably in 1998.

3 **DIVIDENDS**

The directors do not recommend the payment of a dividend in respect of the year (1996, £15,960,000).

4 **DIRECTORS**

The directors of the company are as follows, all of whom have been directors for the whole of the year.

Kerry Richardson - Chairman
Barry Smith
Don Tangney

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.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 1997 - continued

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 company 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 company'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 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 to continue in the same job or to be offered retraining for alternative employment.

8 CHARITABLE DONATIONS

During the year, donations to charities amounted to £nil (1996, £3,000). No political donations were made.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 1997 - continued

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 adhere 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 ORDER OF THE BOARD

MAXINE HARRISON

BASINGSTOKE, 13 MARCH 1998

SECRETARY

AUTOMOBILE ASSOCIATION INSURANCE SERVICES 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 as at the end of the financial year and of the results of the company for the financial year.

The directors consider that, in preparing the financial statements on pages 5 to 14, 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 LIMITED**

We have audited the financial statements on pages 5 to 14.

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.

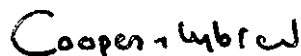
Basis of opinion

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 the company's affairs at 31 December 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



COOPERS & LYBRAND

CHARTERED ACCOUNTANTS AND REGISTERED AUDITORS

SOUTHAMPTON, 13 MARCH 1998

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1997

	Note	1997 £'000	1996 £'000
TURNOVER		98,138	95,588
Operating expenditure		(94,357)	(90,975)
Other interest receivable and similar income	3	5,820	4,980
Interest payable and similar charges	4	(1,532)	(1,230)
PROFIT BEFORE TAXATION	5	<u>8,069</u>	<u>8,363</u>
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	8	<u>(1,636)</u>	<u>(946)</u>
PROFIT FOR THE FINANCIAL YEAR		6,433	7,417
DIVIDENDS	9	<u>-</u>	<u>(15,960)</u>
RETAINED PROFIT/(DEFICIT) FOR THE YEAR		6,433	(8,543)
RETAINED PROFIT AT 1 JANUARY 1997		9,343	17,886
RETAINED PROFIT AT 31 DECEMBER 1997		<u><u>15,776</u></u>	<u><u>9,343</u></u>

All items dealt with in arriving at the results before taxation for both 1997 and 1996 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.

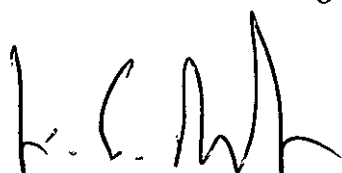
The company has no recognised gains or losses in 1997 and 1996, other than the results for the financial years reported above and, therefore, no separate statement of total recognised gains or losses is presented.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

BALANCE SHEET - 31 DECEMBER 1997

	Note	1997 £'000	1996 £'000
FIXED ASSETS			
Tangible assets	10	18,018	18,710
Other investments other than loans	12	<u>452</u>	<u>452</u>
		18,470	19,162
CURRENT ASSETS			
Debtors	13	64,408	69,812
Investments	14	51,200	63,750
Cash at bank and in hand		<u>1</u>	<u>4,677</u>
		115,609	138,239
CREDITORS: amounts falling due within one year	15	<u>(85,232)</u>	<u>(108,336)</u>
NET CURRENT ASSETS		<u>30,377</u>	<u>29,903</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		48,847	49,065
CREDITORS: amounts falling due after more than one year	16	(8,905)	(14,916)
PROVISIONS FOR LIABILITIES AND CHARGES	17	<u>(5,166)</u>	<u>(5,806)</u>
NET ASSETS		<u><u>34,776</u></u>	<u><u>28,343</u></u>
CAPITAL AND RESERVES			
Called up share capital	20	19,000	19,000
Profit and loss account		<u>15,776</u>	<u>9,343</u>
EQUITY SHAREHOLDERS' FUNDS	21	<u><u>34,776</u></u>	<u><u>28,343</u></u>

The financial statements on pages 5 to 14 were approved by the Board of directors on 13 March 1998 and were signed on its behalf by:



KERRY RICHARDSON

DIRECTOR

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997

1 ACCOUNTING POLICIES

The financial statements have been prepared on a consistent basis under the historical cost convention and in accordance with applicable Accounting Standards in the United Kingdom.

A summary of accounting policies is set out below.

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 commission receivable on all insurance premiums credited to underwriters in the company's books and for two-thirds of the commission on premiums receivable 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 commissions on returned premiums in the future. The company 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%

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%.

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.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 - continued

1 ACCOUNTING POLICIES - continued

Operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

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.

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.

Insurance intermediary assets and liabilities

The company acts as an agent in the insurance of clients' risks and, generally, is not liable as a principal for premiums due to underwriters nor for claims payable to clients. Notwithstanding the company's 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 company itself.

Investments

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

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 incurred on their behalf.

Advertising, promotion and mailing campaign costs

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

2 TURNOVER

All of the turnover arises from one class of business within the UK.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 - continued

3 OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	1997	1996
	£'000	£'000
Bank interest receivable	4,814	4,218
Other interest receivable	561	10
Other income	445	752
	<u>5,820</u>	<u>4,980</u>

4 INTEREST PAYABLE AND SIMILAR CHARGES

	1997	1996
	£'000	£'000
Other interest payable	<u>1,532</u>	<u>1,230</u>

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

5 PROFIT BEFORE TAXATION

The profit before taxation is stated after charging:

	1997	1996
	£'000	£'000
Depreciation of tangible fixed assets	1,301	1,652
Furniture and fittings written off	18	14
Fees payable to the auditors:		
Audit	101	88
Other	19	26
Operating leases	2,023	2,613

6 DIRECTORS' EMOLUMENTS

	1997	1996
	£'000	£'000
Aggregate emoluments	131	269
Compensation for loss of office	-	98
	<u>131</u>	<u>367</u>

Retirement benefits are accruing to all of the directors under the AA Group's defined benefit scheme.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 - continued

7 EMPLOYEES

The average number of persons employed by the company including executive directors, during the year was 1,653 (1996, 1,790).

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

	1997	1996
	£'000	£'000
Wages and salaries	17,777	18,487
Social security costs	1,114	1,165
Other pension costs	1,472	1,417
	<u>20,363</u>	<u>21,069</u>

8 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	1997	1996
	£'000	£'000
United Kingdom corporation tax at 31.5% (1996, 33%)		
Current	1,652	2,436
Over provision in respect of prior years		
Corporation tax	(16)	(1,490)
	<u>1,636</u>	<u>946</u>

9 DIVIDENDS

	1997	1996
	£'000	£'000
Ordinary:		
Proposed final dividend of nil (1996, 84p per share)	<u>Nil</u>	<u>15,960</u>

10 TANGIBLE FIXED ASSETS

	Land and Buildings Freehold £'000	Short leasehold £'000	Equipment and motor vehicles £'000	Total £'000
Cost				
At 1 January 1997	18,949	8,730	6,489	34,168
Additions	4	-	723	727
Intra-group transfers	-	2	(26)	(24)
Disposals	-	(582)	(584)	(1,166)
At 31 December 1997	<u>18,953</u>	<u>8,150</u>	<u>6,602</u>	<u>33,705</u>
Depreciation				
At 1 January 1997	2,186	8,711	4,561	15,458
Charge for the year	312	1	988	1,301
Intra-group transfers	-	-	(3)	(3)
Disposals	-	(582)	(487)	(1,069)
At 31 December 1997	<u>2,498</u>	<u>8,130</u>	<u>5,059</u>	<u>15,687</u>
Net book value				
At 31 December 1997	<u>16,455</u>	<u>20</u>	<u>1,543</u>	<u>18,018</u>
At 31 December 1996	<u>16,763</u>	<u>19</u>	<u>1,928</u>	<u>18,710</u>

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 - continued

10 TANGIBLE FIXED ASSETS - continued

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 £0.2 million less than the amount of £16.5 million at which they are included in the balance sheet at 31 December 1997. The directors consider that there is no permanent diminution in the value of these assets to the company.

11 FIXED ASSET INVESTMENTS

Shares in group undertakings	1997	1996
Shares at cost	<u>£2</u>	<u>£2</u>

At 31 December 1997, the following company was wholly owned and incorporated in England.

Name	Description of Shares	Principal Business Activity
A.A. Insurance Services Limited	Ordinary £1	Dormant

As Automobile Association Insurance Services Limited is a wholly owned subsidiary of Automobile Association Insurance Services Holdings Limited, consolidated accounts have not been presented in accordance with the Companies Act 1985.

12 OTHER INVESTMENTS OTHER THAN LOANS

	1997	1996
	£'000	£'000
Cash deposits	437	437
Government securities (market value £16,000, 1996, £16,000)	15	15
	<u>452</u>	<u>452</u>

13 DEBTORS

Amounts falling due within one year

	1997	1996
	£'000	£'000
Trade debtors	59,303	53,179
Amounts owed by group undertakings	-	239
Other debtors	4,442	6,148
Prepayments and accrued income	625	1,317
	<u>64,370</u>	<u>60,883</u>

Amounts falling due after more than one year

	1997	1996
	£'000	£'000
Advance corporation tax	-	3,990
Other debtors	38	354
Prepayments and accrued income	-	4,585
	<u>64,408</u>	<u>69,812</u>

14 INVESTMENTS

	1997	1996
	£'000	£'000
Short-term deposits	<u>51,200</u>	<u>63,750</u>

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 - continued

15 CREDITORS

Amounts falling due within one year

	1997	1996
	£'000	£'000
Bank loans and overdrafts	16,517	20,934
Insurance creditors	36,207	37,052
Amounts owed to group undertakings	20,241	25,985
Corporation tax	2,451	-
Advance corporation tax	997	-
Other taxes and social security	486	286
Other creditors	4,307	6,303
Accruals and deferred income	4,026	1,816
Dividends payable	-	15,960
	<u>85,232</u>	<u>108,336</u>

The classification of certain creditors has been changed in order to reflect a more appropriate analysis. Comparative figures have been restated accordingly.

16 CREDITORS

Amounts falling due after more than one year

	1997	1996
	£'000	£'000
Amounts owed to group undertakings	8,905	10,926
Advance corporation tax	-	3,990
	<u>8,905</u>	<u>14,916</u>

17 PROVISIONS FOR LIABILITIES AND CHARGES

	Property provisions
	£'000
At 1 January 1997	5,806
Charge for the year	1,394
Utilised in the year	(2,034)
At 31 December 1997	<u>5,166</u>

18 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 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 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.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 - continued

18 PENSIONS AND SIMILAR OBLIGATIONS - continued

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. Provisions for pensions and similar obligations are held centrally by The Automobile Association on behalf of all group undertakings.

19 DEFERRED TAXATION

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

	1997	1997	1996	1996
	Full		Full	
	potential	Provision	potential	Provision
	liability/	made	liability/	made
	(asset)		(asset)	
	£'000	£'000	£'000	£'000
Timing differences on				
Fixed assets	3,453	3,453	3,753	3,753
Provisions for pensions				
and similar obligations	(3,872)	(2,444)	(4,972)	(2,494)
Other items	(1,009)	(1,009)	(1,259)	(1,259)
Capital gains rolled over	3	-	3	-
	<u>(1,425)</u>	<u>-</u>	<u>(2,475)</u>	<u>-</u>

20 CALLED UP SHARE CAPITAL

	1997	1996
	£'000	£'000
Ordinary shares of £1 each		
Authorised	<u>20,000</u>	<u>20,000</u>
Issued, called up and fully paid	<u>19,000</u>	<u>19,000</u>

21 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1997	1996
	£'000	£'000
Profit for the financial year	6,433	7,417
Dividends	-	(15,960)
Shareholders' funds at 1 January 1997	28,343	36,886
Shareholders' funds at 31 December 1997	<u>34,776</u>	<u>28,343</u>

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 - continued

22 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 1997, the company's exposure under this guarantee was £nil (1996, £20,934,000).

Capital

	1997	1996
	£'000	£'000
Expenditure contracted for	<u>420</u>	<u>84</u>

Operating leases

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

	Land and buildings	
	1997	1996
	£'000	£'000
Next year	124	116
Second to fifth year from balance sheet date	479	457
Thereafter	<u>2,816</u>	<u>2,997</u>
	<u>3,419</u>	<u>3,570</u>

The commitments for land and buildings include £1.5 million for which a provision has been established within the property provisions in Note 17.

23 RELATED PARTY TRANSACTIONS

As a wholly owned subsidiary of the AAISH Group, the company is exempt from the requirement to disclose related party transactions with other group undertakings under Financial Reporting Standard 8 which cancel on consolidation. Transactions with other related parties are disclosed in the AAISH Group accounts which are publicly available.

24 ULTIMATE OWNERSHIP

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