

***AUTOMOBILE ASSOCIATION
INSURANCE SERVICES LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2004***



Registered number: 2414212

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2004

The directors present their report and audited financial statements of Automobile Association Insurance Services Limited (the "Company") for the year ended 31 December 2004.

REVIEW OF ACTIVITIES AND FUTURE DEVELOPMENTS

The profit and loss account for the year is set out on page 6.

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

During 2004 personal insurance remained an intensely competitive market continuing the downward trend in premiums from 2003. A consequence of this steady downward trend for motor premiums was a decreased level of churn within the market that in turn put downward pressure on new business volumes. In 2004 the Company continued to develop the use of the internet as a low cost distribution channel.

On 30 September 2004, in preparation for the introduction of the Insurance Mediation Directive in January 2005, certain employees relating to the selling of roadside assistance and other insurance products transferred from other group companies to the Company.

On the same day, the AA Group, in which the Company was a subsidiary, was acquired by AA Top Co Limited. A new management team was appointed and the business was subsequently re-organised including restructuring call centre and head office functions.

The Company implemented the necessary changes to comply with the Distance Mediation Directive in October 2004 and the further requirements of the Insurance Mediation Directive in January 2005. The Company is now authorised and regulated as an insurance intermediary by the Financial Services Authority.

DIVIDENDS

The directors do not recommend the payment of a dividend for the year. In 2003, the directors recommended and paid a dividend of 26.32 pence per share.

DIRECTORS

The directors of the Company were as follows:

Tim Parker	(appointed 30 September 2004)
Sir Trevor Chinn	(appointed 30 September 2004; resigned 18 January 2005)
Nigel Clark	(resigned 30 September 2004; reappointed 8 November 2004)
Paul Woolf	(resigned 30 September 2004; reappointed 8 November 2004)
Kerry Cooper	(appointed 8 November 2004)
Steven Dewey	(appointed 8 November 2004)
Trevor Didcock	(appointed 8 November 2004)
Neale Phillips	(appointed 8 November 2004; resigned 28 February 2005)
Martin Sawkins	(appointed 8 November 2004)
Roger Wood	(resigned 30 September 2004)
Thomas Murphy	(resigned 30 September 2004)
Clare Salmon	(resigned 30 September 2004)

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2004 (continued)

DIRECTORS (continued)

At no time did any director, holding office at 31 December 2004, have any interest in the shares of the Company, or any other Company within the AA Top Co Limited group, except for interests in the shares of the ultimate parent Company, AA Top Co Limited.

Details of the interests of Tim Parker and Sir Trevor Chinn in the shares in the ultimate parent company, AA Top Co Limited, are shown in that company's financial statements for 2004. None of other directors at 31 December 2004 held any shares in AA Top Co Limited at either the beginning of the year, the date of their appointment, the date of their reappointment or at 31 December 2004.

CREDITOR PAYMENT POLICY

The Company recognises that, as a major company in its business sector, it is important to promote and maintain good payment practices. Accordingly, the Company follows the code as laid out below.

- Agree payment terms at the outset of an agreement
- Explain payment procedures to suppliers upon engagement
- Pay bills in accordance with any contract agreed with the supplier or as required by law.
- Tell suppliers without delay when an invoice is contested and settle disputes quickly.

EMPLOYMENT POLICIES

It is the policy of the Company to ensure that disabled people, whether registered or not, should receive full and fair consideration for all appropriate job vacancies, training and development opportunities. Employees, who become disabled during employment, will be retained in employment wherever possible and will be given assistance with any retraining that is required.

The Company is committed to keeping employees and their representatives fully informed on all matters, financial and non-financial, affecting employees. This is achieved through a range of formal and informal briefings, publications and the use of electronic media. An employee share scheme was launched in early 2005 to enable employees to invest in the AA.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2004 (continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are required by the Companies Act 1985 to prepare accounts for each year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year.

The directors consider that in preparing these accounts, the Company has used appropriate accounting policies, consistently applied, with the exception of accounting for retirement benefits, as disclosed in note 12, and supported by reasonable and prudent judgements and estimates, and all applicable accounting standards have been followed. The accounts 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 accounts 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.

AUDITORS

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors.

BY ORDER OF THE BOARD



DIRECTOR
27 APRIL 2005

Registered Office:
Southwood East
Apollo Rise
Farnborough
Hampshire
GU14 0JW

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AUTOMOBILE ASSOCIATION INSURANCE 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 accounting policies note.

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 INSURANCE 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 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP.

PricewaterhouseCoopers LLP
CHARTERED ACCOUNTANTS AND REGISTERED AUDITORS
SOUTHAMPTON, 21 April 2005

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	2004 £'000	2003 As restated £'000
TURNOVER	2	150,613	137,351
Operating expenditure, before exceptional items		(143,061)	(122,094)
Exceptional items	3	(15,680)	-
Total operating expenditure		<u>(158,741)</u>	<u>(122,094)</u>
Other operating income	4	2,375	-
Operating (loss)/profit		(5,753)	15,257
Other interest receivable and similar income	5	4,503	3,499
Other interest payable and similar costs	6	(2,464)	-
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	7	<u>(3,714)</u>	18,756
TAXATION ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES	10	(1,476)	3,254
(LOSS)/PROFIT FOR THE FINANCIAL YEAR		<u>(5,190)</u>	22,010
DIVIDENDS	11	-	(5,001)
(LOSS)/RETAINED PROFIT FOR THE YEAR	22	<u>(5,190)</u>	<u>17,009</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2004 £'000	2003 As restated £'000
(Loss)/profit for the financial year	(5,190)	17,009
Total recognised losses and gains relating to the year	(5,190)	17,009
Prior year adjustment (as explained in note 12)	(2,731)	
Total gains and losses recognised since last annual report	<u>(7,921)</u>	

All items dealt with in arriving at the results before taxation for both 2004 and 2003 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 notes on pages 8 to 17 form part of these financial statements.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

BALANCE SHEET AT 31 DECEMBER 2004

	Notes	2004 £'000	2003 As restated £'000
FIXED ASSETS			
Tangible assets	13	21,203	12,616
Other investments other than loans	14	452	452
		<u>21,655</u>	<u>13,068</u>
CURRENT ASSETS			
Debtors	15	210,416	153,660
Investments	16	88,870	65,310
Cash at bank and in hand		15,212	38,535
		<u>314,498</u>	<u>257,505</u>
CREDITORS (amounts falling due within one year)	17	<u>(205,938)</u>	<u>(147,813)</u>
NET CURRENT ASSETS		<u>108,560</u>	<u>109,692</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		130,215	122,760
PROVISIONS FOR LIABILITIES AND CHARGES	18	<u>(13,782)</u>	<u>(1,137)</u>
NET ASSETS		<u>116,433</u>	<u>121,623</u>
CAPITAL AND RESERVES			
Called up share capital	21	19,000	19,000
Profit and loss account	22	97,433	102,623
EQUITY SHAREHOLDERS' FUNDS	23	<u>116,433</u>	<u>121,623</u>

The financial statements on pages 6 to 17 were approved by the board of directors on 27 April 2005 and were signed on its behalf by:



DIRECTOR

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

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES

The accounts have been prepared in accordance with applicable accounting standards and under the historical cost convention and the Companies Act 1985.

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 and insurance premium tax.

Credit is taken for commission receivable on all insurance premiums closed to underwriters in the Company's books. At this point the Company has substantially completed its contractual obligations for the placement of policies on behalf of its customers and thereby obtained the right to the commission.

Income from credit products is recognised over the period of the loan in proportion to the outstanding loan balance.

Tangible fixed assets

Fixed assets are stated at original purchase cost plus associated costs incurred to bring the assets to their present location less accumulated depreciation and any provisions for impairment. Freehold land is not depreciated. Other tangible assets are depreciated on a straight line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives. A straight line basis is used, except where additional depreciation is charged in the period when an impairment in value is recognised. The principal annual rates used for this purpose are as follows:

Freehold properties	2%
Long leasehold properties	2%
Short leasehold properties	over the period of the leases
Equipment	20% - 33.33%
Motor vehicles	16% - 33.33%

Operating leases

Rentals under operating leases are charged to the profit and loss account as incurred. However, in relation to unoccupied properties, where a decision has been made prior to the year-end to vacate, provision is made for future property costs, net of future sub-let income, up to the estimated date of final disposal.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE ACCOUNTS (continued)

1 ACCOUNTING POLICIES (continued)

Retirement benefits

Pensions and other post retirement benefits are accounted for in accordance with FRS 17, Retirement Benefits. In previous years, the Company accounted for retirement benefits under SSAP 24; the difference arising from the change in accounting policy is disclosed in note 12.

Certain of the Company's employees were members of either the AA Pension Scheme (formerly the AA Staff Pension Scheme), the Centrica Pension Scheme or the Centrica Management Scheme, all of which were defined benefit schemes. The Company is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis and has therefore accounted for pension costs as if these schemes were defined contribution schemes. Accordingly the amounts charged to the profit and loss account are the contributions payable in the year.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods that are different from those in which they are recognised in the financial statements.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits in the foreseeable future from which the reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE ACCOUNTS (continued)

1 ACCOUNTING POLICIES (continued)

Insurance intermediary assets and liabilities

The Company acts as an agent in the insurance of clients' risks and is not generally 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 the fact that in practice premiums and claims monies are usually accounted for by insurance intermediaries, the Company has followed generally accepted accounting practice by showing cash, debtors and creditors relating to its insurance business as assets and liabilities of the Company itself.

Investments

Investments are stated at the lower of cost and net realisable value. Credit is taken for all interest due but not received before the year end.

Cash flow statement

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

2 TURNOVER

All of the turnover arises from one class of business within the United Kingdom.

Gross sales where the Company acts as agent on behalf of insurance underwriters were £560 million (2003: £437 million).

3 EXCEPTIONAL ITEMS

	2004	2003
	£'000	£'000
Restructuring costs	15,680	-

The company incurred restructuring costs of £15,680,000 comprising redundancy costs, professional fees and the restructuring of group operations and the Cardiff and Newcastle call centres.

4 OTHER OPERATING INCOME

Other operating income represents the profit on the sale of certain portfolios of customers.

5 OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	2004	2003
	£'000	£'000
Bank interest receivable	4,503	3,499

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE ACCOUNTS (continued)

6 OTHER INTEREST PAYABLE AND SIMILAR COSTS

	2004 £'000	2003 £'000
Interest payable to group undertakings	<u>2,464</u>	<u>-</u>

7 (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

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

	2004 £'000	2003 £'000
Depreciation of tangible fixed assets	5,491	1,543
Fees payable to the auditors:		
Audit	75	60
Operating lease rentals:		
Property	621	775
Motor vehicles	<u>197</u>	<u>90</u>

8 DIRECTORS EMOLUMENTS

	2004 £'000	2003 £'000
Aggregate emoluments	<u>261</u>	<u>262</u>
Amounts receivable under long-term incentive schemes	<u>382</u>	<u>-</u>
Compensation for loss of office	<u>108</u>	<u>-</u>

The emoluments shown relate only to Clare Salmon and Neale Phillips, whose remuneration was wholly in respect of their services to the Company. Retirement benefits are accruing to these directors under defined benefit schemes.

The emoluments of the highest paid director were £630,037 (2003: £261,982). The accrued annual pension of the highest paid director was £8,485 (2003: £17,768).

Tim Parker and Sir Trevor Chinn are directors of the Company's ultimate parent company, AA Top Co Limited, and of other subsidiaries within the group. Their total emoluments are disclosed in the financial statements of AA Top Co Limited; as it is not possible to make an accurate apportionment of their emoluments, no additional disclosure is made within these financial statements.

The other directors are employed by The Automobile Association Limited; their services to this Company and to a number of fellow subsidiaries are of a non-executive nature and their emoluments are deemed to be wholly attributable to their services to The Automobile Association Limited. Accordingly no emoluments have been disclosed in respect of them.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE ACCOUNTS (continued)

9 EMPLOYEES

The average number of persons employed by the Company, including executive directors, during the year was 2,180 (2003: 2,091).

Staff costs, including remuneration to executive directors but excluding any redundancy costs included in note 3, during the year amounted to:

	2004	2003
		As restated
	£'000	£'000
Wages and salaries	35,421	34,704
Social security costs	2,847	2,138
Other pension costs	3,750	2,943
	<u>42,018</u>	<u>39,785</u>

10 TAXATION ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

The tax charge/(credit) comprises:	2004	2003
	£'000	£'000
UK Corporation tax at 30% (2003: 30%):		
-Current Year	-	-
-Prior Year	(2,424)	-
Total current tax	<u>(2,424)</u>	<u>-</u>
Deferred tax:		
-Current year	(1,744)	(2,905)
-Prior year	5,644	(349)
Total deferred tax (note 20)	<u>3,900</u>	<u>(3,254)</u>
Total tax charge/(credit) on ordinary activities	<u>1,476</u>	<u>(3,254)</u>

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

	2004	2003
	£'000	£'000
(Loss)/profit on ordinary activities before tax	<u>(3,714)</u>	<u>18,756</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2003: 30%)	(1,114)	5,627
Effects of:		
Expenses not deductible for tax purposes	60	82
Depreciation in excess of capital allowances	387	103
Other timing differences	598	451
Group relief	-	(6,263)
Losses not recognised	759	-
Utilisation of group capital losses	(690)	-
Adjustments to tax charge in respect of previous years	(2,424)	-
Current tax credit for the year	<u>(2,424)</u>	<u>-</u>

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE ACCOUNTS (continued)

11 DIVIDENDS

	2004 £'000	2003 £'000
Interim dividend paid	<u>-</u>	<u>5,001</u>

12 PRIOR YEAR ADJUSTMENT

The company has adopted FRS 17, Retirement Benefits, in 2004 and the 2003 comparatives have been restated accordingly.

The effect on continuing operations was an increase in operating profit and amounts owed by group undertakings of £514,000 (2003: decrease of £2,731,000). Net assets and reserves have increased by £514,000 (2003: decrease of £2,731,000).

13 TANGIBLE FIXED ASSETS

	Land and buildings Freehold £'000	Short Leasehold £'000	Equipment and motor vehicles £'000	Total £'000
Cost				
At 1 January 2004	13,962	4,389	7,084	25,435
Additions	-	-	5,751	5,751
Reclassifications	-	(25)	25	-
Intra-group transfers	-	-	9,942	9,942
Disposals	-	-	(101)	(101)
At 31 December 2004	<u>13,962</u>	<u>4,364</u>	<u>22,701</u>	<u>41,027</u>
Depreciation				
At 1 January 2004	3,109	4,365	5,345	12,819
Charge for the year	267	-	5,224	5,491
Reclassifications	-	(1)	1	-
Intra-group transfers	-	-	1,603	1,603
Disposals	-	-	(89)	(89)
At 31 December 2004	<u>3,376</u>	<u>4,364</u>	<u>12,084</u>	<u>19,824</u>
Net book value				
At 31 December 2004	<u>10,586</u>	<u>-</u>	<u>10,617</u>	<u>21,203</u>
At 31 December 2003	<u>10,853</u>	<u>24</u>	<u>1,739</u>	<u>12,616</u>

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE ACCOUNTS (continued)

14 OTHER INVESTMENTS OTHER THAN LOANS

	2004 £'000	2003 £'000
Cash deposits	<u>452</u>	<u>452</u>

15 DEBTORS

	2004 £'000	2003 As restated £'000
<i>Amounts receivable within one year</i>		
Trade debtors	129,796	132,179
Amounts owed by group undertakings	79,630	16,256
Other debtors	540	1,544
Prepayments and accrued income	<u>450</u>	<u>427</u>
	<u>210,416</u>	<u>150,406</u>
<i>Amounts receivable after more than one year</i>		
Deferred corporation tax (see note 20)	-	3,254
	<u>210,416</u>	<u>153,660</u>

16 INVESTMENTS

	2004 £'000	2003 £'000
Short-term deposits	<u>88,870</u>	<u>65,310</u>

Current asset investments included £38m and cash at bank included £0.5m, which arise from insurance broking transactions. They are held in designated accounts for the benefit of insurance broking creditors and are not available to be used for other purposes within the Company.

17 CREDITORS (amounts falling due within one year)

	2004 £'000	2003 £'000
Bank loans and overdrafts	60	1,405
Insurance creditors	37,811	43,915
Amounts owed to group undertakings	150,745	88,732
Taxation and social security	1,730	3,484
Other creditors	4,781	3,322
Accruals and deferred income	<u>10,811</u>	<u>6,955</u>
	<u>205,938</u>	<u>147,813</u>

The amounts owed to group undertakings are unsecured and have no repayment terms. £140m of these amounts bear interest at LIBOR plus a margin

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE ACCOUNTS (continued)

18 PROVISIONS FOR LIABILITIES AND CHARGES

	Empty Property Provisions £'000	Restructuring £'000	Deferred Corporation Tax £'000	Total £'000
At 1 January 2004	1,137	-	-	1,137
Charged in the year	1,582	11,932	646	14,160
Utilised in the year	(9)	(1,506)	-	(1,515)
At 31 December 2004	2,710	10,426	646	13,782

The property provision was made following the closure of a network of high street outlets and relates to future lease costs of vacant properties for the remaining period of the lease, net of expected sub-letting income. The majority of these sums are expected to be spent during the next few years. The provision was re-assessed during the year and has been increased accordingly.

The restructuring provision relates to redundancy and other related costs following restructuring within the Company. It is anticipated that the balance at 31 December 2004 will be utilised in 2005.

19 PENSIONS AND SIMILAR OBLIGATIONS

The majority of the Company's employees were members of either the AA Pension Scheme (formally the AA staff pension scheme), the Centrica pension scheme, or the Centrica Management Scheme, all of which are defined benefit schemes.

As the Company is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis, these schemes have been accounted for as defined contribution schemes.

Contributions to these schemes for the year were £3,750,000 (2003: £2,943,000). Amounts payable to these schemes at 31 December 2004 were £314,000 (2003: £212,000).

20 DEFERRED TAXATION

Deferred tax liabilities/(assets) comprise:

	Amounts provided		Amounts unrecognised	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Timing differences on:				
Accelerated capital allowances	2,589	(319)	-	-
Pensions	(94)	(2,596)	-	-
Other short term timing Differences	(1,090)	(341)	-	-
Unutilised losses	(759)	-	-	-
Capital gains rolled over	-	2	723	-
Deferred corporation tax liability/(asset)	<u>646</u>	<u>(3,254)</u>	<u>723</u>	<u>-</u>

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE ACCOUNTS (continued)

21 CALLED UP SHARE CAPITAL

	2004	2003
	£'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>

22 PROFIT AND LOSS ACCOUNT

	2004	2003
	£'000	£'000
At 1 January, as previously stated	105,354	85,614
Prior year adjustment (see note 12)	<u>(2,731)</u>	<u>-</u>
At 1 January, as restated	102,623	85,614
(Loss)/profit for the financial year	<u>(5,190)</u>	<u>17,009</u>
At 31 December	<u>97,433</u>	<u>102,623</u>

23 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2004	2003
	£'000	As restated £'000
Shareholders' funds at 1 January as previously stated	124,354	87,605
Prior year adjustment (see note 12)	<u>(2,731)</u>	<u>-</u>
At 1 January, as restated	121,623	<u>87,605</u>
(Loss)/profit for the financial year	(5,190)	22,010
Dividends paid	<u>-</u>	<u>(5,001)</u>
(Decrease)/increase in shareholders' funds	<u>(5,190)</u>	<u>17,009</u>
Shareholders' funds at 31 December	<u>116,433</u>	<u>121,623</u>

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE ACCOUNTS (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 2004, the Company had no exposure under this guarantee (2003: £35,519,247).

The Company's assets, excluding its investments of £88.9 million, have been provided as security for bank loans provided to two of the Company's parent companies.

Operating leases

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

	Land and buildings		Motor vehicles	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Next year	80	11	92	13
Second to fifth year from balance sheet date	312	310	108	56
Thereafter	1,191	1,270	-	-
	<u>1,583</u>	<u>1,591</u>	<u>200</u>	<u>69</u>

Some of the commitments for land and buildings relate to vacant properties and have been fully provided under note 18.

25 RELATED PARTY TRANSACTIONS

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

26 ULTIMATE OWNERSHIP

The Company is a wholly owned subsidiary of AA Corporation Limited, a company registered in England and Wales.

The ultimate parent undertaking, which is also the parent of the smallest and largest group to consolidate these financial statements, is AA Top Co Limited whose registered office is at 10 Upper Bank Street, London E14 5JJ.

Copies of the financial statements of AA Top Co Limited are available from the Company Secretary at this address.