AA TOP CO LIMITED

DIRECTORS' REPORT

AND

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

Registered Number: 05149111

AA TOP CO LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2005

The directors present their report and audited financial statements of AA Top Co Limited for the year ended 31 December 2005.

DIRECTORS

The directors, who held office in the year, were as follows:

Sir Trevor Chinn	
Derek Elliott	
Jonathan Kaye	(appointed 28 November 2005)
Robert Lucas	
Donald Mackenzie	(resigned 28 November 2005)
Timothy Parker	
Charles Sherwood	
Paul Woolf	(appointed 1 June 2005)

Details of the shareholdings and remuneration of the directors are included in note 26 to the financial statements.

PRINCIPAL ACTIVITIES

The Group's principal activities are the provision of roadside and financial services in the UK and Ireland.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

2005 was a year during which the business was substantially restructured to provide it with a platform for ongoing profitable growth. The restructuring was achieved whilst maintaining revenue and key service levels across the business. The portfolio of businesses owned by the Group was also further rationalised allowing a greater focus on its core competencies.

The profit and loss account for the year is on page 5. The operating profit of continuing operations before operating exceptional costs for this period was £176.4m (2004 – 3 month period: £36.6m) and, in addition, the share of the operating profits of joint ventures was £14.5m (2004 – 3 month period: £5.3m). After operating exceptional costs of £123.4m (2004 – 3 month period: £55.3m), a loss on termination of operations of £11.9m (2004 – 3 month period: £100.7m), profit on disposal of fixed assets and investments of £23.2m (2004 – 3 month period: £nil) and net interest payable of £209.5m (2004 – 3 month period: £49.7m), the loss before tax amounted to £130.4m (2004 – 3 month period: £168.1m).

The directors do not recommend the payment of a dividend for the period (2004: £nil) and accordingly, the loss for the year is transferred to reserves.

CHARITABLE DONATIONS

The Group contributed £1.0m (2004 – 3 months: £0.3m) to charities during the period. There were no political donations.

POST BALANCE SHEET EVENTS

On 31 January 2006, the Company issued 20,871 'A' ordinary shares at a premium of £0.895 per share above their nominal value of £0.10 and 1,040 'B' ordinary shares at their nominal value of £0.10. The total cash consideration received was £20,871.

On 15 March 2006, the Group carried out a restructuring of its borrowings. The Group took on an additional £610.0m of bank loans. Following this, £50.0m of Mezzanine debt and £510.0m of subordinated preference certificates were repaid and £40.0m was paid into the AA pension scheme. The Group has committed to make further additional payments into the AA pension scheme over the next three years totalling £45.3m. Further details on restructuring of borrowings can be found in note 16.

CREDITOR PAYMENT POLICY

The Group recognises that, as a major company in its business sector, it is important to promote and maintain good payment practices. Accordingly, the Group has the code of practice 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 Group to ensure that all 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 Group is committed to keeping employees and their representatives fully informed on all matters affecting them both of a financial and non-financial nature. 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 2005 to enable employees to invest in the AA.

FINANCIAL RISKS

The Group is exposed to a variety of financial risks. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential risks for the Group. The Board reviews and agrees policies for managing risks. The most important components of financial risk impacting the Group are interest rate risk, credit risk and liquidity risk.

With the exception of the Personal Lending joint venture, the Group's income and operating cash flows are substantially independent of changes in interest rates. Turnover from the Personal Lending joint venture is substantially derived from products with fixed rates of interest. The joint venture manages its interest rate risk by funding its business primarily through fixed rate borrowings and matching, where possible, the term of its borrowings to the anticipated customer repayment profile.

Following the refinancing, the Group now mainly finances its operations through bank borrowings. The Group's borrowings are in sterling with the majority at floating rates of interest. At the year end, LIBOR was fixed on £729.3m of the Group's borrowings. Following the refinancing this was increased to £1,029.3m.

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The Group's policy is to limit counterparty exposures by setting credit limits for each counterparty, where possible by reference to published credit limits. Surplus cash is invested in short-term financial instruments and only deposited with counterparties meeting a minimum credit rating requirement set by the Board.

Liquidity risk is the risk that cash may not be available to pay obligations when due. This risk is managed centrally by the Treasury team, within parameters set by the Board. The Board is satisfied that the Group is not subject to significant liquidity risk as at the year end there was an undrawn revolving credit facility of £97.3m. This facility is in place until 31 December 2011.

The Group has limited exposure to foreign currency risk with one overseas subsidiary in the Republic of Ireland and shareholdings in several Euro based entities. In addition, certain subsidiaries are exposed to exchange rate movements as a result of selling or purchasing in foreign currencies. The principal currencies to which the Group is exposed are the Euro and the US Dollar. The Board has reviewed the net exposure to foreign exchange risk and has concluded that no hedging is required. This policy is subject to periodic review.

AA TOP CO LIMITED

DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that suitable accounting policies have been used. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the period ended 31 December 2005 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office.

BY ORDER OF THE BOARD

SIR TREVOR CHINN
DIRECTOR
28 April 2006

Registered Office:
Fanum House
Basing View
Basingstoke
Hampshire
RG21 4EA

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AA TOP CO LIMITED

We have audited the Group and Parent Company financial statements (the "financial statements") of AA Top Co Limited for the year ended 31 December 2005 which comprise the Group profit and loss account, the Group and Company balance sheets, the Group cash flow statement, the Group statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland). 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 other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 Group's and 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the Parent Company's affairs as at 31 December 2005 and of the Group's loss and cash flows 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
LONDON, 28 April 2006

AA TOP CO LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005	2005	2005	2004 3 months	2004 3 months	2004 3 months
		Before exceptional items	Exceptional items	Total	Before exceptional items	Exceptional items	Total
		£m	£m	£m	£m	£m	£m
Turnover							
Group and share of joint ventures' turnover		831.5	-	831.5	217.3	-	217.3
Less share of joint ventures' turnover		(75.4)	-	(75.4)	(23.3)	-	(23.3)
Group turnover	2	756.1	-	756.1	194.0	-	194.0
Continuing operations		755.1	-	755.1	187.4	-	187.4
Discontinued operations		1.0	-	1.0	6.6	-	6.6
Group turnover		756.1	-	756.1	194.0	-	194.0
Operating costs	3	(579.4)	(123.4)	(702.8)	(161.7)	(55.3)	(217.0)
Operating profit/(loss)		176.7	(123.4)	53.3	32.3	(55.3)	(23.0)
Continuing operations		176.4	(123.4)	53.0	36.6	(55.3)	(18.7)
Discontinued operations		0.3	-	0.3	(4.3)	-	(4.3)
Operating profit/(loss)	2	176.7	(123.4)	53.3	32.3	(55.3)	(23.0)
Share of operating profit of joint ventures		14.5	-	14.5	5.3	-	5.3
Profit on disposal of investments		-	20.9	20.9	-	-	-
Profit on sale of fixed assets		-	2.3	2.3	-	-	-
Loss on termination of operations	6	-	(11.9)	(11.9)	-	(100.7)	(100.7)
Profit/(loss) on ordinary activities before interest and tax		191.2	(112.1)	79.1	37.6	(156.0)	(118.4)
Net interest payable	7			(209.5)			(49.7)
Loss on ordinary activities before tax	2			(130.4)			(168.1)
Taxation on loss on ordinary activities	8			74.7			2.2
Loss for the financial period	21			(55.7)			(165.9)

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.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	2005	2004 3 months
		£m	£m
Loss for the financial period		(55.7)	(165.9)
Actuarial gain recognised in the pension schemes	19	15.1	11.6
Deferred tax arising on actuarial gain in the pension schemes		(5.6)	(3.6)
Exchange translation differences		0.3	-
Total gains and (losses) recognised for the period		(45.9)	(157.9)

The notes on pages 8 to 26 form part of these financial statements.

AA TOP CO LIMITED

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2005

	Notes	Group 2005 £m	Group 2004 £m
FIXED ASSETS			
Intangible assets	9	**1,801.5**	1,807.7
Tangible assets	10	**71.8**	82.2
Investments:			
Share of gross assets of joint ventures		**44.4**	729.4
Share of gross liabilities of joint ventures		**(42.0)**	(725.9)
		2.4	3.5
Investments in associates		**1.0**	0.9
Other investments		**1.3**	1.3
	11	**4.7**	5.7
		1,878.0	1,895.6
CURRENT ASSETS			
Stock	12	**7.9**	6.0
Debtors	13	**284.4**	231.1
Investments – short term deposits	14	**78.7**	105.5
Cash at bank and in hand	14	**117.8**	224.4
		488.8	567.0
CREDITORS (amounts falling due within one year)			
Deferred income		**(267.7)**	(269.3)
Other creditors	15	**(247.6)**	(282.6)
		(515.3)	(551.9)
NET CURRENT (LIABILITIES)/ASSETS		**(26.5)**	15.1
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,851.5**	1,910.7
CREDITORS (amounts falling due after more than one year)			
Bank and other borrowings	16	**(1,799.4)**	(1,795.8)
PROVISIONS FOR LIABILITIES	17	**(138.6)**	(132.4)
NET LIABILITIES EXCLUDING PENSION LIABILITIES		**(86.5)**	(17.5)
PENSION LIABILITIES	19	**(116.3)**	(139.8)
NET LIABILITIES INCLUDING PENSION LIABILITIES	2	**(202.8)**	(157.3)
CAPITAL AND RESERVES			
Called up share capital	20	**0.2**	0.1
Share premium	21	**0.8**	0.5
Profit and loss account	21	**(203.8)**	(157.9)
EQUITY SHAREHOLDERS' DEFICIT	22	**(202.8)**	(157.3)

The financial statements on pages 5 to 26 were approved by the board of directors on 28 April 2006 and were signed on its behalf by:

SIR TREVOR CHINN
DIRECTOR

The notes on pages 8 to 26 form part of these financial statements

AA TOP CO LIMITED

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005	2005	2004 3 months	2004 3 months
		£m	£m	£m	£m
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITES AFTER TERMINATION OF OPERATIONS	23		**37.9**		(16.7)
DIVIDENDS FROM JOINT VENTURES AND ASSOCIATES			**9.4**		10.2
RETURNS ON INVESTMENT AND SERVICING OF FINANCE					
Interest received		**11.9**		4.1	
Interest paid		**(94.5)**		(24.0)	
Issue costs of loans		**(25.4)**		(33.6)	
Bank charges		**(1.5)**		(0.1)	
NET CASH OUTFLOW FROM RETURNS ON INVESTMENT AND SERVICING OF FINANCE			**(109.5)**		(53.6)
TAXATION					
Taxation paid		**(1.1)**		-	
Receipts from surrender of tax losses		**6.2**		-	
NET CASH INFLOW FROM TAXATION			**5.1**		-
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT					
Purchase of tangible fixed assets		**(6.0)**		(4.3)	
Sales of tangible fixed assets		**6.6**		0.8	
Sale of fixed asset investment		**24.5**		-	
NET CASH INFLOW/(OUTFLOW) FOR CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			**25.1**		(3.5)
ACQUISITIONS					
Purchase of subsidiary undertakings		**(12.6)**		(1,615.6)	
Net cash acquired with subsidiary undertakings		**-**		144.4	
Purchase of business		**(0.6)**		-	
NET CASH OUTFLOW FROM ACQUISITIONS			**(13.2)**		(1,471.2)
NET CASH OUTFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING			**(45.2)**		(1,534.8)
MANAGEMENT OF LIQUID RESOURCES					
Net sale/(purchase) of current asset investments			**26.8**		(45.9)
FINANCING					
Issue of ordinary share capital		**0.4**		0.6	
Purchase of own shares		**(0.1)**		-	
Increase in borrowings		**-**		1,804.5	
Repayment of borrowings		**(89.6)**		-	
NET CASH (OUTFLOW)/INFLOW FROM FINANCING			**(89.3)**		1,805.1
(DECREASE)/INCREASE IN NET CASH			**(107.7)**		224.4
RECONCILIATION OF CASH TO NET DEBT					
(Decrease)/increase in net cash	24		**(107.7)**		224.4
Movement in liquid resources	24		**(26.8)**		45.9
Movement in borrowings			**89.6**		(1,770.9)
Other non-cash changes	24		**(100.2)**		28.4
MOVEMENT IN NET DEBT			**(145.1)**		(1,472.2)
Net debt at 1 January / incorporation			**(1,472.2)**		-
NET DEBT AT 31 DECEMBER	24		**(1,617.3)**		(1,472.2)

1 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention and the Companies Act 1985, except for the departure from FRS 10 and the Companies Act set out under intangible fixed assets below. The principal accounting policies, which have been applied on a consistent basis with the prior period, are set out below.

Basis of preparation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings. The results of undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

A joint venture is an undertaking in which the Group has a long-term interest and shares control with one or more co-venturers. The Group's share of the profits less losses of joint ventures is included in the consolidated profit and loss account and its interest in their net assets is included in investments in the consolidated balance sheet. The Group's share of any net liabilities of joint ventures and associates is included in provisions for liabilities.

An associate is an undertaking in which the Group has a long-term equity interest and over which it exercises significant influence. The Group's share of the profits less losses of associates is included in the consolidated profit and loss account and its interest in their net assets is included in investments in the consolidated balance sheet.

The Group has net liabilities as at 31 December 2005. The directors have considered this together with projected cash flows for a period of one year from the date of signing of these financial statements and the maturity of debt detailed in note 16 and have concluded that the Group has sufficient funds to continue trading for this period, and the foreseeable future. Therefore, the financial statements have been prepared using the going concern assumption.

Under section 230(1) of the Companies Act 1985, the Company is exempt from the requirement to present its own profit and loss account.

Turnover

Turnover represents amounts receivable for goods and services provided, excluding value added tax, insurance premium tax, trade discounts and intra-group transactions.

Roadside membership subscriptions and premiums receivable on other insurance products are apportioned on a time basis over the period where the Group is liable for risk cover. The unrecognised element of subscriptions and premiums receivable, relating to future periods, is held within creditors as deferred income.

Credit is taken for commission receivable on products serviced by third party companies at the point that the Group has substantially completed its contractual obligations and, therefore, 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.

For all other revenue, income is recognised at point of delivery of goods or on provision of service. This includes work which has not yet been fully invoiced, provided that it is considered to be fully recoverable.

1 ACCOUNTING POLICIES (continued)

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year. Gains and losses arising on the translation of assets and liabilities are taken to the profit and loss account together with other exchange differences.

The results of overseas operations are translated into sterling at average rates of exchange for the period. Exchange *differences arising on the retranslation of the opening net assets of overseas operations are taken to reserves and* are reported in the statement of total recognised gains and losses.

Intangible fixed assets

Goodwill arising on the acquisition of subsidiary undertakings, representing any excess of the fair value of consideration given over the fair value of the identifiable assets and liabilities acquired, is included in the balance sheet at cost, less any provision for amortisation and impairment.

The directors consider that goodwill relating to the acquisition of AA Corporation Limited has an indefinite life due to the durability of the business as demonstrated over 100 years of history, and that the value of goodwill will not reduce over time. Accordingly, it is not amortised but is subject to an annual review for impairment. This is not in accordance with Schedule 4 to the Companies Act 1985 which requires that all goodwill be amortised. The directors consider that this would fail to give a true and fair view of the profit or loss for the period and that the economic measure of performance in any period is properly made by reference only to any impairment that may have arisen. It is not possible to quantify the effect of the departure from the Companies Act because no finite life for this goodwill can be identified.

Tangible fixed assets

Tangible fixed assets are included in the balance sheet 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 fixed 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. The annual depreciation rates used for this purpose are as follows:

Freehold properties	2%
Long leasehold properties	2%
Fixtures and Fittings	5% - 20%
Equipment and motor vehicles	16% - 33.33%

Operating leases

Rentals under operating leases are charged to the profit and loss account as incurred. In relation to unoccupied properties, where a decision has been made prior to the year end to vacate the property, provision is made for future rent costs net of rent income expected to be received up to the estimated date of final disposal. Provision is made on a discounted basis.

Investments

Other fixed asset investments are included in the balance sheet at cost, less any permanent provisions for impairment.

Current asset investments are stated at the lower of cost and net realisable value.

Stocks

Stocks are valued at the lower of cost or estimated net realisable value.

Treasury shares

Where the Company or its subsidiaries purchase or fund the purchase of the Company's share capital, the consideration paid is shown as a deduction from total shareholders' equity.

1 ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. They are classified according to the substance of the contractual arrangements entered into.

a) Debt instruments

Debt is recognised in the balance sheet as the cash proceeds received less finance costs incurred directly in connection with the issue of the instrument. Finance costs in respect of the instruments, including discounts on issue, are charged to the profit and loss account over the term of the instrument to achieve a constant rate on the balance outstanding.

b) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all its liabilities.

c) Derivative financial instruments

The Group uses an interest rate swap to hedge exposure to financial risk arising from interest rates. Amounts payable or receivable in respect of interest rate swaps are recognised as adjustments to the net interest charge over the term of the contracts.

Pensions and other post retirement benefits

Pensions and other post retirement benefits are accounted for in accordance with FRS 17, Retirement Benefits.

For defined benefit schemes, the amounts charged to operating profit are the current costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount within net interest payable. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Defined benefit schemes are funded, with assets of the schemes held separately from those of the Group, in separate trustee administered funds. Pension schemes assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of related deferred tax, is presented separately after other net assets on the face of the balance sheet.

For defined contribution schemes, 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 Group'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 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 substantially enacted by the balance sheet date.

Deferred tax is measured on a non-discounted basis.

2 SEGMENTAL ANALYSIS BY CLASS OF BUSINESS

In the directors' opinion, the Group's activities were managed in one geographical segment in the period, being the UK and the Republic of Ireland, and there were no significant differences between operating location and destination of sale or service. Segmental analysis of the Group's activities by class of business is given below:

	2005	2004 3 months
	£m	£m
Group turnover		
Continuing operations		
Roadside Services	**525.1**	133.1
Financial Services	**163.3**	37.7
Other Businesses	**66.7**	16.6
Continuing Group turnover	**755.1**	187.4
Discontinued operations		
Roadside Services	**1.0**	2.0
Financial Services	-	0.8
Other Businesses	-	3.8
Total Group turnover	**756.1**	194.0
Share of joint ventures' turnover	**75.4**	23.3
	831.5	217.3

Group profit/(loss) before taxation	**Continuing operations**	**Continuing operations – exceptional items**	**Discontinued operations**	**Total**
	2005	**2005**	**2005**	**2005**
	£m	**£m**	**£m**	**£m**
Roadside Services	**133.4**	**(89.4)**	**0.3**	**44.3**
Financial Services	**36.1**	**(31.8)**	-	**4.3**
Other Businesses	**6.9**	**(2.2)**	-	**4.7**
Operating profit/(loss)	**176.4**	**(123.4)**	**0.3**	**53.3**
Share of operating profit of joint ventures	**14.3**	-	**0.2**	**14.5**
Profit on disposal of investments	-	-	**20.9**	**20.9**
Profit on sale of fixed assets	-	**2.3**	-	**2.3**
Loss on termination of operations	-	-	**(11.9)**	**(11.9)**
	190.7	**(121.1)**	**9.5**	**79.1**
Net interest payable				***(209.5)***
Loss before taxation per profit and loss account				**(130.4)**

	2004 3 months	2004 3 months	2004 3 months	2004 3 months
	£m	£m	£m	£m
Roadside Services	33.3	(35.5)	(0.3)	(2.5)
Financial Services	2.3	(15.5)	(0.4)	(13.6)
Other Businesses	1.0	(4.3)	(3.6)	(6.9)
Operating profit/(loss)	36.6	(55.3)	(4.3)	(23.0)
Share of operating profit of joint ventures	5.1	-	0.2	5.3
Loss on termination of operations	-	-	(100.7)	(100.7)
	41.7	(55.3)	(104.8)	(118.4)
Net interest payable				(49.7)
Loss before taxation per profit and loss account				(168.1)

2 SEGMENTAL ANALYSIS BY CLASS OF BUSINESS (continued)

	2005 £m	2004 £m
Net (liabilities)/assets		
Continuing operations		
Roadside Services	**(260.6)**	(241.3)
Financial Services	**94.3**	145.9
Other Businesses	**(5.3)**	(14.1)
	(171.6)	(109.5)
Discontinued operations		
Roadside Services	-	1.3
Financial Services	-	(1.1)
Other Businesses	**(75.3)**	(76.2)
	(246.9)	(185.5)
Unallocated assets and (liabilities)		
Cash and current asset investments available for group purposes	**92.4**	191.8
Overdraft	**(1.1)**	-
Goodwill	**1,801.5**	1,807.7
Debt	**(1,812.7)**	(1,802.1)
Net accrued acquisition costs	-	(29.4)
Pension liabilities	**(116.3)**	(139.8)
Deferred tax asset	**80.3**	-
	(202.8)	(157.3)

Roadside Services includes the provision of breakdown assistance and other related services. Financial Services mainly comprises intermediary insurance activities and unsecured personal lending. The results of the joint ventures all relate to Financial Services activities.

Discontinued operations are Service Centres, tyre-fitting services, vehicle inspections and external training facilities. *The discontinued joint venture is Motorfile Limited.*

Gross sales where the Group acts as agent on behalf of other entities were £484m (2004 – 3 month period: £104m).

3 OPERATING COSTS

	2005 £m	2004 3 months £m
Employment costs (see note 4)	**248.5**	71.7
Depreciation of tangible fixed assets (see note 10)	**11.9**	3.8
Operating lease rentals		
- Plant and machinery	**20.0**	5.6
- Other	**4.8**	2.2
Other external charges	**273.6**	67.2
Raw materials and consumables	**19.5**	11.6
Other operating income	-	(1.1)
Auditors' remuneration		
- Audit work	**0.6**	0.4
- Non audit work	**0.5**	0.3
Operating costs before exceptional items	**579.4**	161.7
Exceptional items (see note 5)	**123.4**	55.3
	702.8	217.0

The audit fee relating to the Company is £0.1m (2004: £0.1m). Non-audit fees of £0.5m (2004: £0.3m) relate to work on the re-organisation of business activities. In 2004, £3.2m was paid to the auditors for work relating to the issue of debt.

4 EMPLOYEES

The average number of persons employed by the Group, including executive directors, during the period was as follows:

	2005 number	2004 number
Road Services	**5,490**	6,188
Financial Services	**1,691**	1,965
Other Businesses	**761**	1,116
	7,942	9,269

Staff costs during the period amounted to:	**2005** **£m**	2004 3 months £m
Wages and salaries	**203.5**	58.1
Social security costs	**18.3**	5.2
Other pension costs	**26.7**	8.4
	248.5	71.7

5 OPERATING EXCEPTIONAL ITEMS

	2005 **Continuing operations** **£m**	2004 3 months Continuing operations £m
Restructuring costs	**123.4**	55.3

Restructuring costs relate primarily to redundancy costs (including pension adjustments – see note 19), professional fees and the re-organising of group operations. There is an associated tax credit of £37.0m (2004: £nil).

6 LOSS ON TERMINATION OF OPERATIONS

	2005 **Discontinued operations** **£m**	2004 3 months Discontinued operations £m
Closure of Service Centres	**14.5**	85.5
Impairment of fixed assets	**-**	1.9
Profit on disposal of business	**(0.3)**	-
Other closure costs	**-**	13.3
Release of unutilised provision	**(2.3)**	-
	11.9	100.7

Service Centre closure costs arise from the transfer of a number of sites to a third party and the closure of the remaining sites and include professional fees, vacant property and other property costs. Provision for property costs has been made on a pre-tax discounted basis.

The impairment of fixed assets arose from the closure of external training facilities in the prior period.

Other closure costs relate to the termination of tyre-fitting services and vehicle inspections and principally comprise redundancy costs. In 2005 some of the provision recognised in 2004 relating to these costs was released unutilised.

There is an associated tax credit on these exceptional items of £3.6m (2004: £nil).

7 NET INTEREST PAYABLE

	2005 £m	2004 3 months £m
Interest receivable and similar income		
Bank interest receivable	(11.9)	(4.2)
Other finance income in respect of pensions (see note 19)	(8.3)	(1.6)
	(20.2)	(5.8)
Interest payable and similar charges		
Interest on bank loans and overdraft	122.5	30.9
Discount on subordinated preference certificates	94.5	23.1
Amortisation of issue costs of bank loans	7.6	1.2
Bank charges	1.5	0.3
Unwinding of discount rate on provisions (see note 17)	2.9	-
Other interest payable	0.7	-
	229.7	55.5
Net interest payable	209.5	49.7

8 TAXATION ON LOSS ON ORDINARY ACTIVITIES

The taxation (credit)/charge is made up as follows:	2005 £m	2004 3 months £m
- Group - UK Corporation tax at 30%		
- Current period	(1.4)	(1.3)
- Prior period	(3.3)	-
- Overseas tax	1.6	0.1
	(3.1)	(1.2)
- Share of incorporated joint ventures	1.5	1.3
	(1.6)	0.1
Deferred tax		
- *current period: pension*	7.2	0.4
- current period: other	(56.3)	(2.7)
- prior period: other	(24.0)	-
	(73.1)	(2.3)
Total tax credit for the period	(74.7)	(2.2)

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:

	2005 £m	2004 3 months £m
Loss on ordinary activities before tax	(130.4)	(168.1)
Less share of operating profit of incorporated joint ventures	(10.9)	(5.3)
Loss excluding incorporated joint ventures	(141.3)	(173.4)
Tax on loss excluding incorporated joint ventures at standard UK Corporation tax rate of 30%	(42.4)	(52.0)
Effects of:		
Permanent timing differences	(1.4)	6.9
Capital allowances in excess of depreciation	(3.4)	(1.0)
Profit on sale of fixed assets and businesses	(9.2)	-
Other short-term timing differences	(4.5)	2.8
Lower rate of overseas tax	(0.5)	(0.1)
Tax losses offset against 2004 pre-acquisition profits	-	13.0
Unutilised losses	66.5	29.2
Losses sold at below 30%	0.2	-
Utilisation of losses	(5.1)	-
Adjustments in respect of the prior period	(3.3)	-
Group current tax credit for the period	(3.1)	(1.2)

9 INTANGIBLE FIXED ASSETS – GOODWILL

	Group
Cost	**£m**
At 1 January 2005	1,807.7
Additions	0.6
Adjustment to acquisition of AA Corporation Limited in 2004 (see note 25)	(6.8)
At 31 December 2005	**1,801.5**

10 TANGIBLE FIXED ASSETS

	Land and buildings		Fixtures and fittings and equipment	Total
	Freehold	Long Leasehold		
Cost	**£m**	**£m**	**£m**	**£m**
At 1 January 2005	31.8	8.1	48.0	87.9
Additions	0.2	-	5.8	6.0
Disposals	(3.8)	-	(0.7)	(4.5)
Exchange movement	(0.1)	-	(0.1)	(0.2)
At 31 December 2005	**28.1**	**8.1**	**53.0**	**89.2**
Depreciation				
At 1 January 2005	0.2	0.1	5.4	5.7
Charge for year	0.8	0.5	10.6	11.9
Disposals	-	-	(0.2)	(0.2)
At 31 December 2005	**1.0**	**0.6**	**15.8**	**17.4**
Net book value				
At 31 December 2005	**27.1**	**7.5**	**37.2**	**71.8**
At 31 December 2004	31.6	8.0	42.6	82.2

11 FIXED ASSET INVESTMENTS

	Joint ventures and associates	Other investments	Total
	£m	**£m**	**£m**
At 1 January 2005	4.4	1.3	5.7
Disposals	(2.5)	-	(2.5)
Share of profits after taxation for the period	12.9	-	12.9
Dividends received	(5.2)	-	(5.2)
Transfer to provisions for liabilities	2.3	-	2.3
Fair value adjustment (see note 25)	(8.5)	-	(8.5)
At 31 December 2005	**3.4**	**1.3**	**4.7**

11 FIXED ASSET INVESTMENTS (continued)

The Group's share of net assets and liabilities of joint ventures and associates comprise:

	2005 Automobile Association Personal Finance Limited	**2005 Other joint ventures and associates**
	£m	**£m**
Current assets	**895.5**	**44.4**
Liabilities due within one year	**(424.6)**	**(42.0)**
Liabilities due after one year or more	**(473.2)**	**-**
Share of net (liabilities)/assets of joint ventures	**(2.3)**	**2.4**
Share of net assets of associates		**1.0**
		3.4

The share of net liabilities in the joint venture, Automobile Association Personal Finance Limited has been shown within provisions for liabilities at 31 December 2005 (see note 17).

	2004 Automobile Association Personal Finance Limited	2004 Other joint ventures	2004 Total
	£m	£m	£m
Fixed assets	-	0.8	0.8
Current assets	683.6	45.0	728.6
Liabilities due within one year	(252.1)	(43.4)	(295.5)
Liabilities due after one year or more	(430.4)	-	(430.4)
Share of net assets of joint ventures	1.1	2.4	3.5
Share of net assets of associates			0.9
			4.4

The results of Automobile Association Personal Finance Limited, included in these financial statements are:

	2005	2004 3 months
	£m	£m
Turnover	**66.0**	19.2
Profit before tax	**10.7**	4.0
Taxation	**(1.6)**	(1.2)
Profit after tax	**9.1**	2.8

12 STOCK

	2005	2004
	£m	£m
Work in progress	**1.6**	1.3
Finished goods	**6.3**	4.7
	7.9	6.0

13 DEBTORS

	2005 £m	Restated 2004 £m
Amounts receivable within one year		
Trade debtors	**168.7**	185.5
Other debtors	**11.1**	24.1
Prepayments and accrued income	**24.3**	19.8
Listed investment held for sale	**-**	1.7
	204.1	231.1
Amounts receivable after one year		
Deferred tax asset (see note 18)	**80.3**	-
	284.4	231.1

The 2004 comparatives for trade debtors and other debtors have been reclassified to reflect a more appropriate classification consistent with that adopted in 2005. There is no impact on total debtors.

The listed investment was sold in 2005 and had a market value of £2.1m at 31 December 2004.

14 CURRENT ASSET INVESTMENTS AND CASH

Current asset investments included £78.7m (2004: £53.1m) and cash included £25.4m (2004: £85.0m) which were held by the Group's insurance subsidiary undertakings. These sums are not readily available to be used for other purposes within the Group.

15 OTHER CREDITORS

	2005 £m	Restated 2004 £m
Bank overdraft	**1.1**	-
Bank loans (see note 16)	**13.3**	6.3
Trade creditors	**70.0**	73.4
Other taxes and social security	**19.1**	17.9
Other creditors	**17.8**	18.1
Accruals	**126.3**	166.9
	247.6	282.6

The 2004 comparatives for trade creditors, other creditors and accruals have been reclassified to reflect a more appropriate classification consistent with that adopted in 2005. There is no impact on total creditors.

16 BANK AND OTHER BORROWINGS

	2005 £m	2004 £m
Due within one year		
Secured bank loans	**13.3**	6.3
Due after more than one year		
Secured bank loans	**1,201.1**	1,218.3
Debenture loans: Subordinated preference certificates	**598.3**	577.5
	1,799.4	1,795.8
Total bank and other borrowings	**1,812.7**	1,802.1
Maturity of debt:		
In one year or less, or on demand	**13.3**	6.3
In more than one year, but not more than two years	**32.8**	27.6
In more than two years, but not more than five years	**216.6**	186.5
In more than five years	**1,550.0**	1,581.7
	1,812.7	1,802.1

16 BANK AND OTHER BORROWINGS (continued)

Borrowings are stated net of unamortised issue costs of £54.6m (2004: £32.4m). These costs are charged to the profit and loss account at a constant rate on the balance outstanding over the terms of the facilities.

Bank borrowings

The Group's bank borrowings all attract interest at LIBOR plus a fixed margin. To reduce the Group's exposure to changes in LIBOR, LIBOR has been fixed, under an amortising swap agreement, at 5.49% for £729.3m of borrowings which reduces down to £522.5m by 31 December 2007 when the swap agreement expires.

Details of the Group's bank borrowings are outlined below:

	Balance at 31 December 2005 £m	Interest payable	Capital interest (a)	Repayment date
Senior facility				
Tranche A	392.0	LIBOR + 2.25%	-	(b)
Tranche B	211.6	LIBOR + 2.75%	-	30 June 2011 and 31 December 2011
Tranche C	206.7	LIBOR + 3.25%	-	31 December 2013
Mezzanine facility				
Tranche A	175.9	LIBOR + 4.00%	6.5%	31 December 2014
Tranche B	169.7	LIBOR + 4.00%	3.5%	31 December 2014
Junior Mezzanine facility	89.3	-	LIBOR + 10.00%	31 January 2015

(a) Capital interest is compounded annually.

(b) Repayments are made in increasing instalments every six months from 31 March 2006 to 31 March 2011, with the final instalment due on 31 December 2011.

A further £100.0m under the Senior facility is available for revolving credit purposes, for which a commitment fee of 0.75% per annum is payable. £2.7m of this facility has been utilised to provide letters of credit.

All the bank loans are secured by a fixed and floating charge over UK properties and shares and a floating charge over all other assets of the Company and certain principal subsidiary companies, except over current asset investments and cash held for insurance regulatory purposes.

Subordinated preference certificates

The subordinated preference certificates were issued on 30 September 2004 at a subscription price of £554.5m with a nominal value of £3,283.3m, redeemable at par on 30 September 2015. The certificates are included in the balance sheet at the value of their proceeds plus amortised discount to the balance sheet date. The discount is charged to net interest payable and similar charges in the profit and loss account over the term of the instrument to give an effective rate of 16.5%, compounded quarterly. The certificates are unsecured.

Priority of repayment

The Senior facility has priority of repayment, followed by the Mezzanine facility and Junior Mezzanine facility. The rights of the holders of the subordinated preference certificates are subordinated to the rights of all creditors of the Group, including the borrowings referred to above.

Post balance sheet events

On 15 March 2006, the Group restructured its borrowings. Group instalment debtors were used to raise £100.0m against a £120.0m sale-with-recourse facility with a cost of base rate +0.5%. The Senior facility was increased by £510.0m with an average cost of LIBOR +3.2%. The Group then repaid £18.8m of Senior debt that would otherwise have been paid later in 2006, £50.0m of the Mezzanine facility and £510.0m of the subordinated preference certificates. The Group also reduced interest rates by 0.25% on £418.3m of existing senior facilities and by 2.25% on £121.3m of existing Mezzanine facilities.

An additional swap agreement has been entered into to fix LIBOR at 4.78% for £300.0m. This amount increases over time to £750.0m until 31 December 2008 when the swap agreement expires.

17 PROVISIONS FOR LIABILITIES

	Investment in net liabilities of joint ventures	Restructuring	Property	Other	Total
	£m	£m	£m	£m	£m
At 1 January 2005	-	47.5	83.2	1.7	132.4
Fair value adjustment	-	-	1.8	6.1	7.9
Unwinding of discount rate	-	-	2.9	-	2.9
Charge for the period	-	33.6	22.6	-	56.2
Unutilised provision released	-	(4.2)	-	-	(4.2)
Utilised in the period	-	(41.0)	(13.0)	(4.9)	(58.9)
Transfer from fixed asset investments	2.3	-	-	-	2.3
At 31 December 2005	**2.3**	**35.9**	**97.5**	**2.9**	**138.6**

The Group's share of net liabilities in the joint venture, Automobile Association Personal Finance Limited has been disclosed within provisions for liabilities. Further information on this joint venture is contained in note 11.

The increase in the restructuring provision relates to redundancy and other related costs following restructuring within the Group. It is anticipated that the balance at 31 December 2005 will be utilised in 2006.

The property provision relates to future lease costs of vacant properties for the remaining period of the lease, net of expected sub-letting income. A significant element of this provision relates to Service Centres sites not transferred to a third party. These sums are expected to be paid out over the next 15 years. The provision has been calculated on a pre-tax discounted basis.

Other provisions relate to a number of onerous contracts and are expected to be utilised over the next four years.

18 DEFERRED TAXATION

Deferred tax assets/(liabilities) comprise:

	Amounts provided 2005	Amounts provided 2004	**Amounts unrecognised 2005**	Amounts unrecognised 2004
	£m	£m	**£m**	£m
Timing differences on:				
Depreciation in excess of capital allowances	**7.1**	(1.4)	**-**	12.1
Unutilised losses	**66.9**	3.0	**22.8**	26.2
Other short term timing differences	**6.3**	-	**-**	11.5
Capital gains	**-**	(1.6)	**(2.5)**	(3.1)
	80.3	-	**20.3**	46.7

The deferred tax asset related to the Group's pension liabilities is disclosed in note 19.

19 PENSION LIABILITIES

Substantially all of the group's employees at 31 December 2005 were members of either the AA pension scheme or the AA Ireland pension scheme which are both defined benefit schemes. In 2004, some employees were also members of the Centrica management pension scheme and the Centrica pension scheme, which are defined benefit schemes, although, both these schemes were treated as defined contribution schemes in these financial statements as the liability of the Group was restricted to the contributions payable.

The AA pension scheme and the AA Ireland pension scheme are subject to independent valuations at least every three years, on the basis of which the qualified actuary recommends the rate of employers' contributions. This contribution rate, together with the specified contributions payable by the employees and proceeds from the schemes' assets, are expected to be sufficient to fund the benefits payable under the schemes. The triennial valuations were last carried out on 31 March 2004 and 31 December 2004 respectively.

During 2005, the prior service liabilities and the associated assets of certain employees were transferred from Centrica plc pension funds under the terms agreed on the acquisition of AA Corporation Limited. The net deficit, gross of deferred tax, of £3m has been treated as a fair value adjustment in these financial statements.

Certain employees are also members of a post retirement private medical insurance scheme, which is a defined benefit scheme. This scheme had a triennial independent actuarial valuation undertaken at 31 December 2004.

19 PENSION LIABILITIES (continued)

The actuarial valuations have been updated by a qualified independent actuary.

The major assumptions used for the actuarial valuations were:	**31 December 2005 %**	31 December 2004 %	30 September 2004 %
Rate of increase in employee earnings	**3.85**	3.9	4.0
Rate of increase in pensions in payment and deferred pensions	**2.65**	2.6	2.7
Discount rate	**4.90**	5.4	5.6
Inflation	**2.65**	2.6	2.7

The market value of the assets in the schemes, the present value of the liabilities in the schemes and the expected rate of return at the balance sheet date were:

	Expected rate of return per annum 31 Dec 2005 %	**Valuation 31 Dec 2005 £m**	Expected rate of return per annum 31 Dec 2004 %	Valuation 31 Dec 2004 £m	Expected rate of return per annum 30 Sep 2004 %	Valuation 30 Sep 2004 £m
Equities	**7.8**	**661.3**	8.2	635.4	8.6	590.8
Bonds	**4.5**	**285.1**	4.9	136.3	5.2	133.5
Other assets	**6.1**	**80.1**	6.7	40.2	7.0	36.5
Total fair value of assets		**1,026.5**		811.9		760.8
Present value of schemes' liabilities		**(1,172.7)**		(993.4)		(954.6)
Deficit in the schemes		**(146.2)**		(181.5)		(193.8)
Related deferred tax asset		**29.9**		41.7		45.7
Net pension liabilities		**(116.3)**		(139.8)		(148.1)

	2005 £m	2004 3 months £m
Analysis of amount charged to operating costs		
Current service costs	**(26.7)**	(6.5)
Analysis of amount (charged)/credited to operating exceptional costs		
Past service cost	**(3.2)**	-
Curtailment gain	**10.6**	-
	7.4	-
Analysis of amount (charged)/credited to net interest payable		
Interest on pension schemes' liabilities	**(55.0)**	(13.5)
Expected return on assets in pension schemes	**63.3**	15.1
	8.3	1.6
Net charge to profit and loss account	**(11.0)**	(4.9)

	2005 £m	2004 3 months £m
Analysis of amounts recognised in the statement of total recognised gains and losses (see page 5)		
Actual return less expected return on pension schemes' assets	**85.9**	35.3
Experience gains/(losses) arising on the schemes' liabilities	**56.5**	(1.4)
Changes in assumptions underlying the present value of the schemes' liabilities	**(127.3)**	(22.3)
Actuarial gain recognised in STRGL	**15.1**	11.6

19 PENSION LIABILITIES (continued)

Movement of deficit in schemes for the period	2005 £m	2004 £m
At 1 January/30 September	**(181.5)**	(193.8)
Movement in period:		
Current service cost	**(26.7)**	(6.5)
Contributions paid	**34.2**	5.6
Past service cost	**(3.2)**	-
Curtailment gain	**10.6**	-
Other finance income	**8.3**	1.6
Fair value adjustment	**(3.0)**	-
Actuarial gain	**15.1**	11.6
Deficit in schemes at 31 December	**(146.2)**	(181.5)

History of experience gains and losses	2005	2004 3 months
Actual return less expected return on schemes' assets:		
Amount (£m)	**85.9**	35.3
Percentage of schemes' assets	**8.4%**	4.3%
Experience gains/(losses) on schemes' liabilities:		
Amount (£m)	**56.5**	(1.4)
Percentage of the present value of schemes' liabilities	**4.8%**	(0.1)%
Total actuarial gain recognised in the statement of total recognised gains and losses:		
Amount (£m)	**15.1**	11.6
Percentage of the present value of schemes' liabilities	**1.3%**	1.2%

Contributions to defined contribution schemes in the period were £nil (2004: £2.1m)

20 CALLED UP SHARE CAPITAL

Authorised	2005 £	2004 £
1,000,000 'A' ordinary shares of £0.10 each	**100,000**	100,000
1,047,120 'B' ordinary shares of £0.10 each	**104,712**	104,712
	204,712	204,712
Allotted, called up and fully paid		
979,129 'A' ordinary shares of £0.10 each	**97,913**	50,000
998,955 'B' ordinary shares of £0.10 each	**99,896**	97,500
	197,809	147,500

During the year, the Company issued 479,129 'A' ordinary shares for cash consideration of £476,734 and 23,955 'B' ordinary shares for cash consideration of £2,396. Fees of £46,000 were incurred in the issue of these shares.

The 'A' ordinary shares are entitled to a distribution of profits in advance of the 'B' ordinary shares; the 'A' ordinary shares carry no right to vote in any respect with regard to general meetings of the Company.

The Company has also issued 45,000 warrants to subscribe in cash for par of £0.10 for 'B' ordinary shares. Each warrant entitles the holder to subscribe for such sum of ordinary share capital as represented by 0.0001% of the 'B' ordinary shares of the fully diluted share capital. The warrants are exercisable on the occurrence of a specific future event and lapse if not exercised at that time.

In 2005, an employee share trust was established to operate the employee share ownership plan, under which the trust holds shares on behalf of participating employees. If participating employees leave the Group, they must surrender their beneficial interest in those shares which are then treated as Treasury shares as defined in note 1. At 31 December 2005, the trust held 371 'B' ordinary shares with a nominal value of £37.10 which had been surrendered by former employees. These shares represent 0.037% of the total issued 'B' ordinary shares of the Group.

NOTES TO THE FINANCIAL STATEMENTS (continued)

21 RESERVES

	Share premium	Profit and Loss	Total
	£m	£m	£m
At 1 January 2005	0.5	(157.9)	(157.4)
Loss for the financial period	-	(55.7)	(55.7)
Actuarial gain on pension schemes net of deferred tax	-	9.5	9.5
Exchange translation differences	-	0.3	0.3
Premium on 'A' ordinary shares	0.3	-	0.3
At 31 December 2005	**0.8**	**(203.8)**	**(203.0)**

22 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' DEFICIT

	2005	2004
	£m	£m
Loss for the financial year/period	**(55.7)**	(165.9)
Actuarial gain on pension schemes net of deferred tax	**9.5**	8.0
Exchange translation differences	**0.3**	-
Issue of ordinary share capital	**0.4**	0.6
Issue of warrants	**-**	-
Net decrease in shareholders' deficit	**(45.5)**	(157.3)
Shareholders' deficit at 1 January/incorporation	**(157.3)**	-
Shareholders' deficit at 31 December	**(202.8)**	(157.3)

23 CASH FLOW FROM OPERATING ACTIVITIES

Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities	Before exceptional items 2005	Exceptional items 2005	Total 2005	Total 3 months 2004
	£m	£m	£m	£m
Operating profit/(loss)	**176.7**	**(123.4)**	**53.3**	(23.0)
Depreciation charge	**11.9**	**-**	**11.9**	3.8
(Increase)/decrease in stocks	**(1.9)**	**-**	**(1.9)**	1.2
Decrease/(increase) in debtors	**14.3**	**-**	**14.3**	(11.5)
Decrease in creditors	**(6.0)**	**-**	**(6.0)**	(12.7)
(Decrease)/increase in pension liabilities	**(4.3)**	**(10.6)**	**(14.9)**	0.9
(Decrease)/increase in provisions	**(1.1)**	**(0.9)**	**(2.0)**	43.8
Net cash inflow/(outflow) from operating activities before termination of operations	**189.6**	**(134.9)**	**54.7**	2.5
Cash outflow from termination of operations			**(16.8)**	(19.2)
Net cash inflow/(outflow) from operating activities after termination of operations			**37.9**	(16.7)
Represented by:				
Continuing activities			**37.6**	9.7
Discontinued activities			**0.3**	(26.4)
			37.9	(16.7)

The operating cashflows for continuing activities in 2004 include a cash outflow of £9.9m relating to operating exceptional items.

24 RECONCILIATION OF MOVEMENT IN NET DEBT

	1 January 2005 £m	Cash Flow £m	Non cash changes £m	31 December 2005 £m
Cash in hand and at bank	224.4	(106.6)	-	**117.8**
Bank overdrafts	-	(1.1)	-	**(1.1)**
Net cash	224.4	(107.7)	-	**116.7**
Liquid resources	105.5	(26.8)	-	**78.7**
Debt due within 1 year	(6.3)	8.5	(15.5)	**(13.3)**
Debt due after 1 year	(1,218.3)	31.1	(13.9)	**(1,201.1)**
Subordinated preference certificates	(577.5)	50.0	(70.8)	**(598.3)**
	(1,472.2)	(44.9)	(100.2)	**(1,617.3)**

Non cash changes relate to the discount unwinding on the subordinated preference certificates, interest compounding on the mezzanine debts and the amortisation of debt issue costs.

25 ACQUISITIONS

The Group purchased AA Corporation Limited and its subsidiary undertakings on 30 September 2004.

The acquisition method of accounting was adopted for this acquisition. During 2005 some revisions were made to the 2004 provisional fair values as shown below:

	Fair value per 2004 financial statements £m	Reclassification as debt issue costs £m	Net additional consideration £m	Fair value adjustments £m	Total 2005 £m
Tangible fixed assets	84.4	-	-	-	**84.4**
Fixed asset investments	16.1	-	-	(8.5)	**7.6**
Stock	7.1	-	-	-	**7.1**
Debtors	201.2	-	-	(0.5)	**200.7**
Investments					
- short term deposits	59.6	-	-	-	**59.6**
Cash	144.4	-	-	-	**144.4**
Creditors (amounts falling due within one year)	(515.7)	-	-	(3.6)	**(519.3)**
Net inter-company receivables	456.0	-	-	-	**456.0**
Provisions:					
Pension	(148.1)	-	-	(1.9)	**(150.0)**
Other	(12.1)	-	-	(7.9)	**(20.0)**
Net assets acquired	292.9	-	-	(22.4)	**270.5**
Goodwill	1,807.7	(30.1)	0.9	22.4	**1,800.9**
Consideration	2,100.6	(30.1)	0.9	-	**2,071.4**
Consideration satisfied by:					
Cash	1,598.3	-	0.9	-	**1,599.2**
Fees	46.3	(30.1)	-	-	**16.2**
Assumption of inter-company debt	456.0	-	-	-	**456.0**
	2,100.6	(30.1)	0.9	-	**2,071.4**

£30.1m of professional fees previously treated as acquisition costs have been reclassified as debt issue costs.

25 ACQUISITIONS (continued)

Fair value adjustments

The revision to fixed asset investments is an additional provision for bad debts within the joint venture, Automobile Association Personal Finance Limited.

The adjustments to debtors and creditors arise from the directors' reassessment of these balances at 30 September 2004.

The increase in the pension provision relates to the transfer of employee liabilities from the scheme of their former employer to the AA pension scheme (see note 19).

The increase in other provisions relates to onerous contracts.

26 DIRECTORS' SHAREHOLDINGS AND REMUNERATION

The beneficial interests of the directors in the shares of the Company at 31 December 2005 were:

	'A' ordinary shares 2005	**'B' ordinary shares 2005**	'A' ordinary shares 2004	'B' ordinary shares 2004
Sir Trevor Chinn	**80,000**	**5,568**	100,000	6,960
Timothy Parker	**400,000**	**27,870**	400,000	27,870
Paul Woolf	**72,000**	**3,625**	-	-

In addition, Paul Woolf had a beneficial interest in 15.86 'B' ordinary shares and subordinated preference certificates acquired at a cost of £9,998 on 25 February 2005, both of which are held through the employee share trust. On 23 March 2005, £834 of these subordinated preference certificates were redeemed resulting in a gain of £10.

On 5 September 2005, Sir Trevor Chinn and Timothy Parker exercised options to purchase subordinated preference certificates. Following the exercise of these options, there are no further options outstanding. Sir Trevor Chinn acquired subordinated preference certificates at a cost of £1,131,235 and Timothy Parker acquired subordinated preference certificates at a cost of £4,524,936, both from existing holders. The issue price of these certificates on 30 September 2004 was £1,053,841 and £4,215,362 respectively.

Information on directors' remuneration is as follows:

	2005	2004 3 months
	£m	£m
Total directors' emoluments	**1.4**	0.3
Remuneration of the highest paid director	**1.0**	0.3

One (2004: none) of the directors is a member of a pension scheme to which the Group makes a contribution.

The services of Derek Elliott and Charles Sherwood are provided by Permira Advisers Limited and the services of Jonathan Kaye, Robert Lucas and Donald Mackenzie are provided by CVC Capital Partners Limited. No part of their remuneration is specifically attributed to services to the Group. Derek Elliott and Charles Sherwood have an indirect economic interest in the B ordinary shares and the subordinated preference certificates held by Permira funds. The Permira funds hold 40.8% of the B ordinary shares and 42.9% of the subordinated preference certificates. Jonathan Kaye, Robert Lucas and Donald Mackenzie have an indirect economic interest in the B ordinary shares and the subordinated preference certificates held by the CVC funds. The CVC funds hold 40.8% of the B ordinary shares and 42.9% of the subordinated preference certificates.

27 PRINCIPAL UNDERTAKINGS

The principal undertakings at 31 December 2005 were as follows:

Company	*Country of incorporation*	% holdings in ordinary shares	Principal activity
Subsidiary undertakings			
AA SPC Co Limited	England	100	Holding company
AA Junior Mezzanine Co Limited	England	100	Holding company
AA Acquisition Co Limited	England	100	Holding company
AA Corporation Limited	England	100	Holding company
The Automobile Association Limited	Jersey	100	Roadside services
Automobile Association Developments Limited	England	100	Roadside and other services
Automobile Association Underwriting Services Limited	England	100	Roadside and financial services
Volkswagen Assistance Limited	England	100	Roadside services
AA Ireland Limited	Ireland	100	Roadside and financial services
Automobile Association Insurance Services Limited	England	100	Roadside and financial services
A.A. Reinsurance Company (Guernsey) Limited	Guernsey	100	Financial services
Joint Ventures			
Automobile Association Personal Finance Limited	England	50	Financial Services
AA Financial Services	England	(c)	Financial Services
Associates			
ARC Transistance S.A.	Belgium	20	Roadside Services
A.C.T.A. Assistance S.A.	France	20	Roadside Services
A.C.T.A S.A.	France	20	Roadside Services
EuropeNet S.A.	Belgium	20	Roadside Services

(a) All principal undertakings are indirectly held by the Company, except for AA SPC Co Limited, which is a direct subsidiary undertaking.

(b) The subsidiary undertakings listed above are those which, in the opinion of the directors, principally affected the results for the year or the net assets of the Group. All subsidiary undertakings have been included in the consolidation.

(c) AA Financial Services is an unincorporated entity in which the Group has a 50% interest. Its principal place of business is Capital House, Queen's Park Road, Hardbridge, Chester, CU88 3AN.

(d) The percentage voting rights are the same as the percentage holding in ordinary shares.

28 COMMITMENTS

Operating leases

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

	Land and buildings		Vehicles	
	2005	2004	**2005**	2004
	£m	£m	**£m**	£m
Next year	**0.2**	0.5	**3.2**	2.4
Second to fifth year from balance sheet date	**1.0**	0.7	**10.3**	14.8
After five years	**11.9**	12.4	**-**	0.6
	13.1	13.6	**13.5**	17.8

At 31 December 2005, the Group had capital commitments of £1.1m (2004: £1.1m) and capital expenditure authorised but not yet committed of £8.6m (2004: £nil).

29 RELATED PARTY TRANSACTIONS

The Group is exempt from the requirement to disclose related party transactions with other group undertakings under FRS 8 which cancel on consolidation. Other transactions with related parties during the year comprised:

Joint Ventures and Associates	**Type of transactions – income/(expenditure)**	**2005** **£m**	2004 3 months £m
A.C.T.A. S.A.	Call handling fees	**(3.2)**	(0.4)
	Amounts payable at 31 December	**-**	(0.1)
ARC Transistance S.A.	Registration fees	**(0.3)**	-
	Amounts payable at 31 December	**-**	-
Automobile Association Personal Finance Limited	Intermediary services provided	**2.1**	0.4
	Amounts receivable at 31 December	**0.7**	5.4
AA Financial Services	Amounts receivable at 31 December[1]	**2.3**	1.1
Motorfile Limited	Marketing costs recovered	**-**	0.2
	Amounts receivable at 31 December	**-**	0.2

[1]Amounts receivable by the Group in relation to the trade of AA Financial Services

Other related party transactions

Included within debt issues costs is £18.8m payable to CVC Capital Partners Investment Underwriting SARL (CVC) and £6.2m payable to Permira Partners LLP (Permira). Both amounts were outstanding at 31 December 2004 and paid in 2005.

In addition, the Group was charged monitoring fees and expenses of £0.2m (2004: £nil) for CVC with a balance outstanding at 31 December 2005 of £0.1m (2004: £nil) and £0.2m (2004: £nil) for Permira with a balance outstanding at 31 December 2005 of £0.1m (2004: £nil).

Activity with the former parent of AA Corporation Limited, Centrica plc, during 2004 included £16.6m of costs charged by Centrica plc and £0.6m of costs charged to Centrica plc for administrative services. At 31 December 2004, the balance owing to Centrica plc was £9.8m and the balance due from Centrica plc was £13.3m. Centrica plc is not a related party in 2005.

A number of directors of the Company were also directors of Kwik-Fit Group Limited during the year. By the end of 2005, there were no common directors with Kwik-Fit Group Limited. Transactions with Kwik-Fit Group Limited were £0.6m (2004: £0.1m) and the balance owing at 31 December 2005 was £0.1m (2004: £0.1m).

AA TOP CO LIMITED

COMPANY BALANCE SHEET AT 31 DECEMBER 2005

	Notes	Company 2005 £m	Company 2004 £m
FIXED ASSETS			
Investments in group undertakings	30	**0.5**	0.5
Fixed asset investments	31	**0.1**	-
		0.6	0.5
CURRENT ASSETS			
Debtors – Amounts due from group undertakings		**0.2**	-
NET CURRENT ASSETS		**0.2**	-
NET ASSETS		**0.8**	0.5
CAPITAL AND RESERVES			
Called up share capital	20	**0.2**	0.1
Share premium	32	**0.8**	0.5
Profit and loss account	32	**(0.2)**	(0.1)
EQUITY SHAREHOLDERS' FUNDS	33	**0.8**	0.5

The financial statements on pages 27 to 28 were approved by the board of directors on 28 April 2006 and were signed on its behalf by:

SIR TREVOR CHINN
DIRECTOR

The notes on page 28 form part of these financial statements

30 INVESTMENTS IN GROUP UNDERTAKINGS

	Company
Cost	**£m**
At 1 January and 31 December 2005	**0.5**

A list of subsidiary undertakings is included in note 27.

31 FIXED ASSET INVESTMENTS

	2005	2004
	£m	£m
Investment in subordinated preference certificates	**0.1**	-

In 2005, an employee share trust was established to operate the employee share ownership plan, under which the trust holds shares and subordinated preference certificates on behalf of participating employees. The investment in subordinated preference certificates relates to loans made to the trust to enable it to repurchase the holdings of participating employees who have left the Group.

32 RESERVES

	Share premium	Profit and Loss	Total
	£m	£m	£m
At 1 January 2005	0.5	(0.1)	0.4
Loss for the financial period	-	(0.1)	(0.1)
Premium on 'A' ordinary shares	0.3	-	0.3
At 31 December 2005	**0.8**	**(0.2)**	**0.6**

33 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2005	2004
	£m	£m
Loss for the financial year/period	**(0.1)**	(0.1)
Issue of ordinary share capital	**0.4**	0.6
Issue of warrants	**-**	-
Net increase in shareholders' funds	**0.3**	0.5
Shareholders' funds at 1 January/incorporation	**0.5**	-
Shareholders' funds at 31 December	**0.8**	0.5