

1674675

***AUTOMOBILE ASSOCIATION
UNDERWRITING SERVICES LIMITED
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2003***



Registered Number: 1674675

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2003

- 1 The directors present their report and audited accounts of Automobile Association Underwriting Services Limited (the "Company") for the year ended 31 December 2003.

2 REVIEW OF ACTIVITIES AND FUTURE DEVELOPMENTS

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

The principal activity of the Company is to transact general insurance business. An analysis of the results by the Company's classes of business is shown in note 2 to the accounts.

Both the level of business and year end financial position were satisfactory and the directors expect that the present level of activity will be sustained for the foreseeable future.

3 DIVIDENDS

The directors do not recommend the payment of a dividend in respect of the year (2002: £nil).

4 DIRECTORS

The directors of the Company were as follows:

Andrew Briscoe	- resigned 31 December 2003
Nigel Clark	
Thomas Murphy	- appointed 1 December 2003
Clare Salmon	- appointed 6 January 2004
Simon Skinner	- appointed 6 January 2004

5 DIRECTORS' INTERESTS

At no time did any director holding office at 31 December 2003 have any interest in the shares of the Company or any other company within the Centrica plc Group, except for the interests in and the options over, the shares and interests of the ultimate parent company, Centrica plc, as set out below.

Beneficial Interests in ordinary shares

	As at 31 December 2003	As at date of appointment
Thomas Murphy	6,165	6,165

The above figures include shares appropriated under the terms of the Centrica profit sharing scheme, and shares held under the terms of the Centrica Share Incentive Plan.

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2003 (continued)

5 DIRECTORS' INTERESTS (continued)

Centrica Executive Share Option Scheme

	As at 31 December 2003	Exercised during year	Granted during year	As at 31 December 2002
Nigel Clark	100,272	-	100,272	-

Under the terms of the scheme a grant of options was made on 24 March 2003 at an option price of 146.6 pence per share.

Centrica Sharesave scheme

	As at 31 December 2003	Lapsed during year	Exercised during year	Granted during year	As at date of appointment
Thomas Murphy	10,575	-	-	-	10,575

Options were granted under the terms of the scheme in December 1999 and June 2003 at an option price of 127.8 and 107.1 pence per share respectively.

Long Term Incentive Scheme

	As at 31 December 2003	Lapsed during year	Exercised during year	Granted during year	As at 31 December 2002 (1)
Nigel Clark	150,856	-	-	50,864	99,992
Thomas Murphy	100,462	-	-	-	100,462

(1) or date of appointment, if later.

Total allocations as at 31 December 2003 shown above include allocations of shares that are subject to performance conditions.

A conditional allocation of shares was made under the terms of the scheme on 1 April 2003 at a base price of 179.4 pence per share.

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2003 (continued)

5 DIRECTORS' INTERESTS (continued)

Details of the above schemes can be found in the 2003 accounts of Centrica plc, copies of which can be obtained from the Company Secretary at the address given in note 19 to these accounts.

The middle market price of a Centrica plc ordinary share on the last day of trading of 2003 (31 December) was 211 pence. The range during the year was 212.75 pence (high) and 131.5 pence (low).

There were no contracts of significance during or at the end of the financial year to which the Company or any subsidiary and associated undertakings is a party and in which any director is or was materially interested.

6 CREDITOR PAYMENT POLICY

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

7 EMPLOYMENT POLICIES

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

The Group continues to support Investors in People.

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

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2003 (continued)

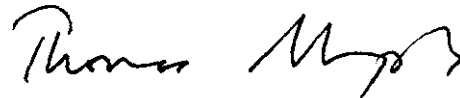
8 DIRECTORS' AND OFFICERS' LIABILITY

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

9 AUDITORS

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

BY ORDER OF THE BOARD



THOMAS MURPHY
SECRETARY
24 March 2004

Registered Office:
Millstream
Maidenhead Road
Windsor
Berkshire SL4 5GD

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR

PREPARING THE FINANCIAL STATEMENTS

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

The directors consider that in preparing the financial statements on pages 8 to 21, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and all applicable accounting standards have been followed. The financial statements have been prepared on a going concern basis.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED**

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes which have been prepared under the historical cost convention and the accounting policies 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 UNDERWRITING SERVICES LIMITED (continued)

OPINION

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 December 2003 and its profit 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

25 March 2004

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

TECHNICAL ACCOUNT – GENERAL BUSINESS

FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003 £'000	2002 £'000
EARNED PREMIUMS, NET OF REINSURANCE			
Gross premiums written	2	42,991	41,478
Outward reinsurance premiums		<u>(9,350)</u>	<u>(8,475)</u>
Net premiums written		33,641	33,003
 Change in the gross provision for unearned premiums		 370	 673
Change in the provision for unearned premiums, reinsurer's share		 <u>222</u>	 <u>839</u>
Change in the net provision for unearned premiums		592	1,512
 TOTAL TECHNICAL INCOME		 <u>34,233</u>	 <u>34,515</u>
 CLAIMS INCURRED, NET OF REINSURANCE			
Gross claims paid		15,027	12,302
Reinsurer's share		<u>(1,790)</u>	<u>(827)</u>
Net claims paid		13,237	11,475
 Change in the gross provision for claims	3	 (274)	 (164)
Change in the provision for claims, reinsurer's share		<u>(150)</u>	<u>(8)</u>
Change in the net provision for claims		(424)	(172)
 CLAIMS INCURRED, NET OF REINSURANCE		 12,813	 11,303
 Net operating expenses	4	 14,252	 14,995
 TOTAL TECHNICAL CHARGES		 <u>27,065</u>	 <u>26,298</u>
 BALANCE ON THE TECHNICAL ACCOUNT - GENERAL BUSINESS		 <u>7,168</u>	 <u>8,217</u>

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

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

PROFIT AND LOSS ACCOUNT (continued)

NON-TECHNICAL ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003 £'000	2002 £'000
Balance on the technical account – general business		7,168	8,217
Investment income	5	<u>1,445</u>	<u>1,445</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		8,613	9,662
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	9	-	-
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR		<u>8,613</u>	<u>9,662</u>
RETAINED PROFIT AT 1 JANUARY		52,454	42,792
RETAINED PROFIT AT 31 DECEMBER		<u>61,067</u>	<u>52,454</u>

Profit on ordinary activities before taxation for both 2003 and 2002 relates to continuing operations.

As the financial statements have been drawn up under the historical cost convention, there is no difference between the profit and loss account reported on pages 8 and 9 and its historical cost equivalent.

The Company has no recognised gains or losses in 2003 and 2002, other than the profit for the financial year, reported on pages 8 and 9, and, therefore, no separate statement of total recognised gains or losses is presented.

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

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

BALANCE SHEET AT 31 DECEMBER 2003

	Notes	2003 £'000	2002 £'000
ASSETS			
INVESTMENTS			
Other financial investments – deposits with credit institutions		40,000	40,000
REINSURER'S SHARE OF TECHNICAL PROVISIONS			
Provision for unearned premiums		4,572	4,350
Claims outstanding		667	517
		<u>5,239</u>	<u>4,867</u>
DEBTORS			
Debtors arising out of direct insurance operations	10	1,053	604
Other debtors	11	40,181	38,721
		<u>41,234</u>	<u>39,325</u>
OTHER ASSETS			
Tangible assets	12	2	17
Cash at bank and in hand		85	1,531
		<u>87</u>	<u>1,548</u>
PREPAYMENTS AND ACCRUED INCOME			
Accrued interest and rent		58	9
Deferred acquisition costs		6,698	6,241
		<u>6,756</u>	<u>6,250</u>
TOTAL ASSETS		<u>93,316</u>	<u>91,990</u>

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

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

BALANCE SHEET AT 31 DECEMBER 2003 (continued)

	Notes	2003 £'000	2002 £'000
LIABILITIES			
CAPITAL AND RESERVES			
Called up share capital	13	2,500	2,500
Profit and loss account		<u>61,067</u>	<u>52,454</u>
EQUITY SHAREHOLDERS' FUNDS	14	<u>63,567</u>	<u>54,954</u>
TECHNICAL PROVISIONS			
Provision for unearned premiums		20,141	20,511
Claims outstanding		<u>3,189</u>	<u>3,463</u>
		<u>23,330</u>	<u>23,974</u>
CREDITORS			
Creditors arising out of direct insurance operations		80	202
Other creditors including taxation and social security	15	<u>2,851</u>	<u>9,644</u>
		<u>2,931</u>	<u>9,846</u>
ACCRUALS AND DEFERRED INCOME		3,488	3,216
TOTAL LIABILITIES		<u>93,316</u>	<u>91,990</u>

The financial statements on pages 8 to 21 were approved by the board of directors on 24 March 2004 and were signed on its behalf by:



CLARE SALMON
DIRECTOR

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

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the provisions of Section 255A of, and Schedule 9A to, the Companies Act 1985, and with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ("the ABI SORP") dated December 1998. The financial statements have also been prepared in accordance with applicable accounting standards and under the historical cost convention.

Certain reclassifications have been made to prior year amounts to conform with the current year presentation.

A summary of the accounting policies is set out below.

Premiums

All premiums written relate to business inception in the year and are shown gross of any commission due to intermediaries and exclusive of insurance premium tax. The amount includes an estimate of premiums due but not yet received.

Unearned premiums

The provision for unearned premiums represents that proportion of the premiums written relating to the period of the policy that has not expired at the balance sheet date.

Claims incurred

Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years.

Claims provisions

Provision is made at the year end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Company. The estimated cost of claims includes expenses to be incurred in settling claims. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

NOTES TO THE ACCOUNTS (continued)

1 ACCOUNTING POLICIES (continued)

Claims provisions (continued)

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until some time after the event, giving rise to the claims, has happened. In calculating the estimated cost of unpaid claims the Company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the Company has regard to the claim circumstance as reported and information on the cost of settling claims with similar characteristics in previous period.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions.

Unexpired risks provisions

The total of unearned premiums and related investment returns in future years is compared with the aggregate estimated future claims and expenses in respect of business in force at the year end. A provision for unexpired risks is created to meet any anticipated deficiency for each grouping of business which is managed together.

Acquisition costs

Acquisition costs, which represent commission and other related expenses, are deferred subject to recoverability and amortised over the period in which the related premiums are earned.

Tangible assets

Tangible assets are included in the balance sheet at cost, less accumulated depreciation and any provisions for impairment. Tangible assets are depreciated on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Equipment	20% - 33.33%
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AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

NOTES TO THE ACCOUNTS (continued)

1 ACCOUNTING POLICIES (continued)

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

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

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

Retirement benefits

Retirement benefits are accounted for in accordance with SSAP 24, Pension costs.

The cost of providing retirement pensions and related benefits is charged to the profit and loss account over the periods benefiting from employees' service. The difference between the charge to the profit and loss account and the contributions paid to the Pension Schemes is shown as an asset or liability in the balance sheet. The regular pension cost, variations from the regular pension cost and interest are all charged within employee costs, and the straight-line method is applied for amortising surpluses and interest.

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

NOTES TO THE ACCOUNTS (continued)

1 ACCOUNTING POLICIES (continued)

Investments

- i) Investment income is the amount receivable for the period, and includes, where appropriate, the imputed tax credit.
- ii) Investments are included in the balance sheet at current market value.
- iii) Realised and unrealised investment gains are included in the non-technical account in the period in which they arise.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Assets and liabilities in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year or, if hedged forward, at the rate of exchange under the related forward currency contract. Exchange differences on the translation of assets and liabilities are taken to the technical account – general business together with other exchange differences.

Cash flow statement

The Company is a wholly owned subsidiary of Centrica plc, whose consolidated financial statements are publicly available. The Company is, therefore, exempt from the requirement to prepare a cash flow statement under FRS 1 (Revised).

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

NOTES TO THE ACCOUNTS (continued)

2 SEGMENTAL INFORMATION

2003	Miscellaneous Financial Loss £'000	Legal Expenses £'000	Assistance £'000	Total £'000
Gross premiums written	-	19,432	23,559	42,991
Gross premiums earned	-	18,856	24,505	43,361
Gross claims incurred	15	(4,183)	(10,585)	(14,753)
Gross operating expenses	-	(6,742)	(7,510)	(14,252)
Reinsurance balance	-	(7,188)	-	(7,188)
General business technical result	15	743	6,410	7,168
2002	Miscellaneous Financial Loss £'000	Legal Expenses £'000	Assistance £'000	Total £'000
Gross premiums written	705	17,174	23,599	41,478
Gross premiums earned	741	15,494	25,916	42,151
Gross claims incurred	(291)	(1,746)	(10,101)	(12,138)
Gross operating expenses	(319)	(5,113)	(9,563)	(14,995)
Reinsurance balance	-	(6,801)	-	(6,801)
General business technical result	131	1,834	6,252	8,217

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

During the year, benefits under insurance products, which were previously disclosed within Miscellaneous Financial Loss, have been reassessed and are now disclosed within Assistance.

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

NOTES TO THE ACCOUNTS (continued)

3 MOVEMENTS IN PRIOR YEARS' PROVISION FOR CLAIMS OUTSTANDING

A positive run-off deviation of £310,000 (net of reinsurance) was experienced during the year in respect of Assistance and £142,000 in respect of Legal expenses (2002: a positive run-off deviation of £637,000 in respect of Assistance).

4 NET OPERATING EXPENSES

	2003	2002
	£'000	£'000
Policy acquisition costs	15,977	13,242
Change in deferred acquisition costs	(457)	(1,033)
Reinsurance commission and profit participation	(5,476)	(4,169)
Administration costs	4,208	6,955
Net operating expenses	<u>14,252</u>	<u>14,995</u>

The total gross commission incurred during the year was £15,520,000 (2002: £13,209,000). Administration costs include depreciation of £9,000 (2002: £35,000).

5 INVESTMENT INCOME

	2003	2002
	£'000	£'000
Income from other financial investments	<u>1,445</u>	<u>1,445</u>

6 AUDITORS' REMUNERATION

The remuneration of the auditors of the Company for audit services was £36,000 (2002: £30,000).

7 DIRECTORS' EMOLUMENTS

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

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

NOTES TO THE ACCOUNTS (continued)

8 EMPLOYEES

At 1 January 2003, all employees were transferred to other group companies as a result of outsourcing all services to these companies. Therefore, the Company had no employees during the year (2002: 70).

Staff costs during the year amounted to:	2003	2002
	£'000	£'000
Wages and salaries	-	1,303
Social Security costs	-	78
Other pension costs	-	171
	<u>-</u>	<u>1,552</u>

9 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

The tax charge comprises:	2003	2002
	£'000	£'000
Total tax on profit on ordinary activities	<u>-</u>	<u>-</u>

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

	2003	2002
	£'000	£'000
Profit on ordinary activities before tax	<u>8,613</u>	<u>9,662</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2002:30%)	2,584	2,899
Effects of:		
Permanent disallowables	15	-
Depreciation in excess of capital allowances	(6)	(1)
Utilisation of other short-term timing differences	4	(15)
Group relief surrendered for no consideration	(2,597)	(2,883)
Current tax charge for the year	<u>-</u>	<u>-</u>

10 DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2003	2002
	£'000	£'000
Policyholders	<u>1,053</u>	<u>604</u>

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

NOTES TO THE ACCOUNTS (continued)

11 OTHER DEBTORS

	2003	2002
	£'000	£'000
Amounts owed by group undertakings	39,994	36,761
Other debtors	187	1,960
	<u>40,181</u>	<u>38,721</u>

12 TANGIBLE ASSETS

	Equipment and motor vehicles £'000
Cost	
At 1 January 2003	387
Additions	2
Disposals	<u>(248)</u>
At 31 December 2003	<u>141</u>
Depreciation	
At 1 January 2003	(370)
Charge for the year	(9)
Disposals	<u>240</u>
At 31 December 2003	<u>(139)</u>
Net book value	
At 31 December 2003	<u>2</u>
At 31 December 2002	<u>17</u>

13 CALLED UP SHARE CAPITAL

	2003	2002
	£'000	£'000
Ordinary shares of £1 each		
Authorised	<u>10,000</u>	<u>10,000</u>
Issued, called up and fully paid	<u>2,500</u>	<u>2,500</u>

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

NOTES TO THE ACCOUNTS (continued)

14 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2003	2002
	£'000	£'000
Retained profit for the financial year	8,613	9,662
Shareholders' funds at 1 January	54,954	45,292
Shareholders' funds at 31 December	63,567	54,954

15 OTHER CREDITORS INCLUDING TAX AND SOCIAL SECURITY

	2003	2002
	£'000	£'000
Bank overdrafts	884	932
Amounts owed to group undertakings	1,343	8,279
Other taxation and social security	359	377
Other creditors	265	56
	2,851	9,644

16 PENSIONS AND SIMILAR OBLIGATIONS

The majority of the Company's employees in 2002 were members of either the Centrica Staff Pension Scheme, the AA Staff Pension Scheme or the Centrica Management Scheme.

These defined benefit schemes are funded to cover pension liabilities in respect of service up to the balance sheet date and their assets are held in separate trustee administered funds. However, it is not possible on a reasonable and consistent basis to identify the Company's share of the underlying assets and liabilities within these schemes, and therefore, as allowed within FRS 17, these schemes have been treated for disclosure purposes as defined contribution schemes. The aggregate contributions to the schemes for the Company were paid to the schemes by The Automobile Association Limited, who holds the provision for pension in its accounts. The latest actuarial valuation of the schemes, prepared for the purposes of making the transitional disclosures in accordance with FRS 17 in the consolidated financial statements of Centrica plc, show a total deficit of £790 million (£551 million net of deferred tax). Further details of their valuation can be found in the annual report of Centrica plc.

The liabilities under the pension schemes will be paid out over an extended period. The contributions to the pension fund are being made on the basis of actuarial advice as to the amounts required to meet these liabilities in full. This actuarial advice is based on triennial funding valuations, the last of which was at 31 March 2001. Since then, the Company has continued to take actuarial advice and increased its contribution levels on 1 January 2002.

The Company has a commitment to provide post-retirement private medical insurance cover for certain current and post employees. Details relating to the latest actuarial valuations of these arrangements are also contained in the financial statements of Centrica plc. Provisions for these obligations are held centrally by The Automobile Association Limited.

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

NOTES TO THE ACCOUNTS (continued)

17 DEFERRED TAXATION

Potential amounts of unrecognised deferred tax (assets) comprise:	2003	2002
Timing differences on:	£'000	£'000
Accelerated capital allowances	(23)	(29)
Provisions for pensions and similar obligations	-	(210)
Other short term timing differences	(141)	(136)
Deferred corporation tax (asset)	<u>(164)</u>	<u>(375)</u>

There is no deferred taxation recognised in the accounts (2002: £nil). As required by FRS 19, deferred tax assets are only recognised when there is persuasive and reliable evidence that the assets can be realised. Detailed operating plans covering two years from the balance sheet date are used for deferred tax asset recognition purposes. Potential deferred tax asset utilisation falling outside that planning horizon is not currently recognised on the balance sheet. As encouraged by FRS 19, deferred tax asset recognition will be regularly reassessed.

18 RELATED PARTY TRANSACTIONS

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

19 ULTIMATE OWNERSHIP

The Company is a wholly owned subsidiary of Automobile Association Developments Limited.

The ultimate parent undertaking, which is also the parent of the smallest and largest group to consolidate these accounts, is Centrica plc, whose principal place of business is situated at Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD. Copies of the Annual Report and Accounts of Centrica are available from the Company Secretary at this address.