

AUTOMOBILE ASSOCIATION
INSURANCE SERVICES
HOLDINGS LIMITED
ACCOUNTS - 31 DECEMBER 1997



Registered number: 2413321

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 1997

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

2 REVIEW OF ACTIVITIES AND FUTURE DEVELOPMENTS

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

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

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

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

The directors expect that the group will continue to trade profitably in 1998.

3 DIVIDENDS

The directors recommend a final dividend of 17p per share (1996, 74p) amounting to £3,663,412 (1996, £15,946,619).

4 DIRECTORS

The following are directors of the company, all of whom have been directors for the whole of the year, except where indicated.

John Maxwell	- Chairman
George Lowe	
Patrick O'Sullivan	- appointed 2 January 1998
Ian Owen	
Kerry Richardson	
Barry Smith	
Robert Torrance	- appointed 2 January 1998

Stephen Melcher and Clive Coates were directors of the company from the beginning of the year until their resignations on 17 October 1997 and 31 December 1997, respectively.

REPORT OF THE DIRECTORS

FOR YEAR ENDED 31 DECEMBER 1997 - continued

5 DIRECTORS' INTERESTS IN SHARES OF THE COMPANY AND CONTRACTS

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

6 EMPLOYEE COMMUNICATION AND INVOLVEMENT

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

7 PEOPLE WITH DISABILITIES

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

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

8 CHARITABLE DONATIONS

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

9 PAYMENT POLICY

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

- * have a clear and consistent policy that they pay bills in accordance with contract;
- * ensure that the finance and purchasing departments are both aware of this policy and adhere to it;

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

REPORT OF THE DIRECTORS

FOR YEAR ENDED 31 DECEMBER 1997 - continued

9 PAYMENT POLICY - continued

- * agree payment terms at the outset of a deal and adhere to them;
- * not extend or alter payment terms without prior agreement;
- * provide suppliers with clear guidance on payment procedures; and
- * ensure that there is a system for dealing quickly with complaints and disputes and advise suppliers without delay when invoices, or parts of invoices, are contested.



BY THE ORDER OF THE BOARD

MAXINE HARRISON

SECRETARY

BASINGSTOKE, 13 MARCH 1998

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

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

The directors consider that, in preparing the financial statements on pages 5 to 18, appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used and that all applicable accounting standards have been followed. The financial statements have been prepared on a going concern basis.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985. In addition, the directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities. The directors confirm that they have complied with these requirements.

**REPORT OF THE AUDITORS TO THE MEMBERS OF
AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED**

We have audited the financial statements on pages 5 to 18.

Respective responsibilities of directors and auditors

As described above, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 1997 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



COOPERS & LYBRAND
CHARTERED ACCOUNTANTS AND REGISTERED AUDITORS
SOUTHAMPTON, 13 MARCH 1998

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

ACCOUNTING POLICIES

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

A summary of accounting policies is set out below.

Basis of consolidation

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

Turnover

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

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

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

Fixed assets

Fixed assets are stated at cost, less accumulated depreciation. Depreciation is calculated so as to write off the cost of fixed assets, other than land, over the expected useful economic lives of the assets concerned. A straight line basis is used, except where additional depreciation is charged in the period when a permanent diminution in value is recognised. The principal annual rates used for this purpose are:

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

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

Provision is made in relation to unoccupied properties for future property costs up to the estimated date of final disposal.

The cost of furniture and fittings is written off in the year of purchase, except in the case of major projects, where the costs are capitalised and depreciated, using an annual rate of 20%.

Software

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

Operating leases

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

Retirement benefits

The cost of providing retirement benefits is charged to the profit and loss account over the periods benefiting from the employees' services. The difference between the charge to the profit and loss account and the contributions and premiums paid is included as an asset or liability in the balance sheet.

Deferred taxation

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

Insurance intermediary assets and liabilities

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

Investments

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

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED**ACCOUNTING POLICIES - continued****Costs incurred by and on behalf of other group companies**

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

Advertising, promotion and mailing campaign costs

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

Cash flow

Cash is defined as cash in hand and deposits repayable on demand, less overdrafts repayable on demand. Liquid resources are term deposits of less than one year, government securities and shares held in managed funds which are readily convertible to cash.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1997

	Note	1997 £'000	1996 £'000
TURNOVER	1	98,976	96,845
Operating expenditure		(94,750)	(90,809)
Other interest receivable and similar income	2	6,744	5,858
Interest payable and similar charges	3	(1,533)	(1,239)
PROFIT BEFORE TAXATION	4	9,437	10,655
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	7	(2,124)	(1,572)
PROFIT FOR THE FINANCIAL YEAR		7,313	9,083
DIVIDENDS	8	(3,663)	(15,947)
RETAINED PROFIT/(DEFICIT) FOR THE YEAR		3,650	(6,864)
RETAINED PROFIT AT 1 JANUARY 1997		17,987	24,851
RETAINED PROFIT AT 31 DECEMBER 1997		21,637	17,987

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

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

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

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

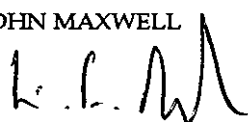
BALANCE SHEETS - 31 DECEMBER 1997

		GROUP		COMPANY	
	Note	1997 £'000	1996 £'000	1997 £'000	1996 £'000
FIXED ASSETS					
Tangible assets	10	18,023	18,720	-	-
Investments in group undertakings	11	-	-	126,411	126,411
Other investments other than loans	12	452	452	-	-
		<u>18,475</u>	<u>19,172</u>	<u>126,411</u>	<u>126,411</u>
CURRENT ASSETS					
Debtors	13	64,592	69,506	84	15,960
Investments	14	51,200	63,750	-	-
Cash at bank and in hand		72	6,322	7,021	5,708
		<u>115,864</u>	<u>139,578</u>	<u>7,105</u>	<u>21,668</u>
CREDITORS: amounts falling due within one year	15	<u>(75,606)</u>	<u>(96,841)</u>	<u>(3,805)</u>	<u>(16,099)</u>
NET CURRENT ASSETS		<u>40,258</u>	<u>42,737</u>	<u>3,300</u>	<u>5,569</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>58,733</u>	<u>61,909</u>	<u>129,711</u>	<u>131,980</u>
CREDITORS: amounts falling due after more than one year	16	(8,934)	(15,120)	-	-
PROVISIONS FOR LIABILITIES AND CHARGES	17	<u>(5,166)</u>	<u>(5,806)</u>	<u>-</u>	<u>-</u>
NET ASSETS		<u>44,633</u>	<u>40,983</u>	<u>129,711</u>	<u>131,980</u>
CAPITAL AND RESERVES					
Called up share capital	20	21,549	21,549	21,549	21,549
Share premium account	21	1,447	1,447	1,447	1,447
Capital reserve	21	-	-	105,000	105,000
Profit and loss account		21,637	17,987	1,715	3,984
EQUITY SHAREHOLDERS' FUNDS	22	<u>44,633</u>	<u>40,983</u>	<u>129,711</u>	<u>131,980</u>

The financial statements on pages 5 to 18 were approved by the Board of directors on 13 March 1998 and were signed on its behalf by:



JOHN MAXWELL



KERRY RICHARDSON

)
)
) DIRECTORS
)
)

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 1997

	Note	1997 £'000	1996 £'000
Net cash inflow from operating activities	24	1,987	6,981
Returns on investments and servicing of finance			
Dividends paid		(15,947)	-
Taxation			
UK corporation tax inflow		5,321	-
UK corporation tax outflow		(3,273)	(2,918)
		<u>2,048</u>	<u>(2,918)</u>
Capital expenditure and financial investment			
Sale of tangible fixed assets		96	1,435
Purchase of tangible fixed assets		(806)	(456)
		<u>(710)</u>	<u>979</u>
Management of liquid resources			
Sale of current asset investments		12,550	-
Purchase of current asset investments		-	(10,945)
		<u>12,550</u>	<u>(10,945)</u>
Decrease in cash	25	<u>(72)</u>	<u>(5,903)</u>

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997

1 TURNOVER

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

2 OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	1997	1996
	£'000	£'000
Bank interest receivable	4,813	4,218
Other interest receivable	1,486	887
Other income	445	753
	<u>6,744</u>	<u>5,858</u>

3 INTEREST PAYABLE AND SIMILAR CHARGES

	1997	1996
	£'000	£'000
Other interest payable	<u>1,533</u>	<u>1,239</u>

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

4 PROFIT BEFORE TAXATION

The profit before taxation is stated after charging:

	1997	1996
	£'000	£'000
Depreciation of tangible fixed assets	1,305	1,654
Furniture and fittings written off	18	14
Fees payable to the auditors:		
Audit (parent company £4,725; 1996 £5,300)	109	103
Other	28	27
Operating leases	2,023	2,613

5 DIRECTORS' EMOLUMENTS

	1997	1996
	£'000	£'000
Aggregate emoluments	274	473
Employer pension contributions to money purchase scheme	2	-
Compensation for loss of office	-	44

Retirement benefits are accruing to one director under a money purchase scheme and four directors under the AA Group's defined benefit scheme.

Highest paid director

The aggregate emoluments and benefits for the highest paid director was £131,794 (1996, £108,497). Under the defined benefit pension scheme, his accrued pension at the end of the year was £6,000.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 - continued

6 EMPLOYEES

The average number of persons employed by the group including executive directors, during the year was 1,657 (1996, 1,793).

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

	1997	1996
	£'000	£'000
Wages and salaries	17,850	18,557
Social security costs	1,119	1,169
Other pension costs	1,480	1,426
	<u>20,449</u>	<u>21,152</u>

7 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	1997	1996
	£'000	£'000
United Kingdom corporation tax at 31.5% (1996, 33%)		
Current	2,140	3,062
Over provision in respect of prior years		
Corporation tax	(16)	(1,490)
	<u>2,124</u>	<u>1,572</u>

8 DIVIDENDS

	1997	1996
	£'000	£'000
Ordinary:		
Proposed final dividend of 17p per share (1996, 74p)	<u>3,663</u>	<u>15,947</u>

9 PROFIT OF AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

Of the consolidated profit for the year of £7,313,000 (1996, profit £9,083,000), a profit of £1,395,000 (1996, £16,150,000) is dealt with in the financial statements of the parent company. As permitted by Section 230 of the Companies Act 1985, a separate profit and loss account dealing with the results of the parent company only has not been presented.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 - continued

10 TANGIBLE FIXED ASSETS

Group	Land and Buildings Freehold £'000	Short leasehold £'000	Equipment and motor vehicles £'000	Total £'000
Cost				
At 1 January 1997	18,949	8,730	6,504	34,183
Additions	4	-	723	727
Intra AA Group transfers	-	2	(23)	(21)
Disposals	-	(582)	(584)	(1,166)
At 31 December 1997	18,953	8,150	6,620	33,723
Depreciation				
At 1 January 1997	2,186	8,711	4,566	15,463
Charge for the year	312	1	992	1,305
Intra AA Group transfers	-	-	-	-
Disposals	-	(582)	(486)	(1,068)
At 31 December 1997	2,498	8,130	5,072	15,700
Net book value				
At 31 December 1997	16,455	20	1,548	18,023
At 31 December 1996	16,763	19	1,938	18,720

In the opinion of the directors, the current open market value on an existing use basis of the freehold and leasehold land and buildings is approximately £0.2 million less than the amount of £16.5 million at which they are included in the balance sheet at 31 December 1997. The directors consider that there is no permanent diminution in the value of these assets to the group.

11 FIXED ASSET INVESTMENTS

	1997 £'000	1996 £'000
Shares in group undertakings		
Shares at cost	126,411	126,411

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

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

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

All shares held are ordinary £1 shares.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 - continued

12 OTHER INVESTMENTS OTHER THAN LOANS

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

13 DEBTORS

Amounts falling due within one year

	GROUP		COMPANY	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Trade debtors	59,403	53,484	-	-
Amounts owed by group undertakings	84	239	84	-
Dividends receivable	-	-	-	15,960
Other debtors	4,442	5,522	-	-
Prepayments and accrued income	625	1,332	-	-
	<u>64,554</u>	<u>60,577</u>	<u>84</u>	<u>15,960</u>
Amounts falling due after more than one year				
Advance corporation tax	-	3,990	-	-
Other debtors	38	354	-	-
Prepayments and accrued income	-	4,585	-	-
	<u>64,592</u>	<u>69,506</u>	<u>84</u>	<u>15,960</u>

14 INVESTMENTS

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

15 CREDITORS

Amounts falling due within one year

	GROUP		COMPANY	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Bank loans and overdrafts	2,839	9,017	-	-
Insurance creditors	36,207	37,082	-	-
Amounts owed to group undertakings	19,685	26,145	-	57
Corporation tax	2,939	-	136	90
Advance corporation tax	997	-	-	-
Other taxes and social security	486	286	-	-
Other creditors	4,754	6,541	6	5
Accruals and deferred income	4,036	1,823	-	-
Dividends payable	3,663	15,947	3,663	15,947
	<u>75,606</u>	<u>96,841</u>	<u>3,805</u>	<u>16,099</u>

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 - continued

15 CREDITORS - continued

Amounts falling due within one year - continued

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

16 CREDITORS

Amounts falling due after more than one year

	GROUP	
	1997	1996
	£'000	£'000
Amounts owed to group undertakings	8,934	11,130
Advance corporation tax	-	3,990
	<u>8,934</u>	<u>15,120</u>

17 PROVISIONS FOR LIABILITIES AND CHARGES

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

18 PENSIONS AND SIMILAR OBLIGATIONS

Pension schemes for the AA Group's employees are of the defined benefit, final salary type, the assets of which are held in trust funds separate from the group's finances. The schemes are self-administered and funded to cover future pension liabilities (including expected future earnings and pension increases) in respect of service up to the balance sheet date.

They are subject to independent valuations at least every three years, on the basis of which the group's consulting actuary, certifies the rates of the employer's contributions which, together with the specified contributions payable by the employees and proceeds from the schemes' assets, are sufficient to fund the benefits payable under the schemes.

The company has a commitment to provide post-retirement private medical insurance cover for certain current and past employees.

Details relating to the latest actuarial valuations of these arrangements are contained in the financial statements of The Automobile Association. The provisions for pensions and similar obligations are held centrally by The Automobile Association on behalf of all group undertakings.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 - continued

19 DEFERRED TAXATION

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

	1997 Full potential liability/ (asset) £'000	1997 Provision made £'000	1996 Full potential liability/ (asset) £'000	1996 Provision made £'000
GROUP				
Timing differences on				
Fixed assets	3,451	3,451	3,751	3,753
Provisions for pensions and similar obligations	(3,885)	(2,442)	(5,064)	(2,494)
Other items	(1,133)	(1,009)	(1,311)	(1,259)
Capital gains rolled over	3	-	134	-
	<u>(1,564)</u>	<u>-</u>	<u>(2,490)</u>	<u>-</u>

20 CALLED UP SHARE CAPITAL

	1997 £'000	1996 £'000
Ordinary shares of £1 each Authorised	<u>30,000</u>	<u>30,000</u>
Issued, called up and fully paid	<u>21,549</u>	<u>21,549</u>

21 UNDISTRIBUTABLE RESERVES

	GROUP Share premium account £'000	COMPANY Share premium account £'000	Capital reserve £'000
At 1 January 1997 and 31 December 1997	<u>1,447</u>	<u>1,447</u>	<u>105,000</u>

The cumulative amount of goodwill, which has all been written off against the share premium account, is £105 million (1996, £105 million).

22 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	1997 £'000	1996 £'000
Profit for the financial year	7,313	9,083
Dividends payable	(3,663)	(15,947)
Net addition to/(reduction in) shareholders' funds	<u>3,650</u>	<u>(6,864)</u>
Shareholders' funds at 1 January 1997	40,983	47,847
Shareholders' funds at 31 December 1997	<u>44,633</u>	<u>40,983</u>

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 - continued

COMMITMENTS

Guarantees

The company is part of a group cross guarantee arrangement whereby it has guaranteed the overdrafts of certain other group undertakings and other group undertakings have guaranteed the company's overdraft. At 31 December 1997, the company's exposure under this guarantee was £13,668,000 (1996, £20,934,000).

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

Operating leases

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

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

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

RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1997	1996
	£'000	£'000
Profit before taxation	9,437	10,655
Depreciation charges	1,305	1,654
Loss on sale of fixed assets	23	175
Provisions for liabilities and charges	(640)	(19,206)
(Increase)/decrease in debtors	688	(4,341)
Increase/(decrease) in creditors	<u>(8,826)</u>	<u>18,044</u>
Net cash inflow from operating activities	<u>1,987</u>	<u>6,981</u>

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 - continued

RECONCILIATION OF NET CASH FLOWS TO MOVEMENT IN NET FUNDS

	1997	1996
	£'000	£'000
Decrease in cash in the year	(72)	(5,903)
Cash (outflow)/inflow from increase in liquid resources	(12,550)	10,945
Movement in net funds in the year	<u>(12,622)</u>	<u>5,042</u>
Net funds at 1 January 1997	61,055	56,013
Net funds at 31 December 1997	<u>48,433</u>	<u>61,055</u>

ANALYSIS OF NET FUNDS

	At 1 January 1997 £'000	Cash flows £'000	At 31 December 1997 £'000
Cash at bank and in hand	6,322	(6,250)	72
Bank overdrafts	<u>(9,017)</u>	<u>6,178</u>	<u>(2,839)</u>
	(2,695)	(72)	(2,767)
Current asset investments	63,750	(12,550)	51,200
	<u>61,055</u>	<u>(12,622)</u>	<u>48,433</u>

RELATED PARTY TRANSACTIONS

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

At 31 December 1997 75 per cent of the share capital of Automobile Association Insurance Services Holdings Limited was held by the AA Group. During 1997 commission costs of £5,677,000 were payable to the AA Group, whilst commission income of £7,738,000 was receivable from them. In addition interest of £1,533,000 was payable to and £924,000 receivable from the AA Group. The management charge for support functions provided by the AA Group in 1997 was £19,553,000. At the year end £28,619,000 was payable to, and £84,000 was receivable from the AA Group.

The remaining 25 per cent of share capital is held by the Eagle Star Group. In 1997 commission income of £15,923,000 was receivable from the Eagle Star Group. At 31 December 1997 premiums of £7,508,000 were payable to and commission income of £1,920,000 was receivable from Eagle Star.

ULTIMATE OWNERSHIP

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