

***AUTOMOBILE ASSOCIATION
INSURANCE SERVICES
HOLDINGS LIMITED
ACCOUNTS - 31 DECEMBER 1994***



REPORT OF THE DIRECTORS

FOR YEAR ENDED 31 DECEMBER 1994

1. The Directors present herewith the audited financial statements for the year ended 31 December 1994.

2. REVIEW OF ACTIVITIES AND FUTURE DEVELOPMENTS

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

The main activity of the Group is the provision of insurance intermediary services.

Commission income has reduced during the year as a result of increased competition in the Motor and Home Personal Lines market place. The lower income has been offset partially by close control of expenditure. This, combined with reduced investment income, has resulted in reduced trading profits.

A number of reorganisations were undertaken during the year resulting in the loss of over 1,200 jobs and, as a result, the Group reports a loss on ordinary activities.

The Group is now in a position to return to profitability. The continued diversification into non-motor products and the ongoing development of information systems will enable additional improvements to be made in the services provided to customers.

The Group's continuing commitment is to provide quality products and first class services to AA Members and customers through a professional and highly motivated staff.

3. DIVIDENDS

The Directors do not recommend a final dividend in respect of the year. In 1993, a dividend of 53.5p per share, amounting to £11,484,157 was proposed and was subsequently paid on 3 October 1994.

4. DIRECTORS

The Directors of the Company were as follows:

Simon Dyer CBE	- Chairman
Jim Atkinson	- retired 28 February 1994
Robert Chase	
Clive Coates	
George Greener	- resigned 28 September 1994
David Hiddleston	- resigned 15 July 1994
George Lowe	
Stephen Melcher	- appointed 28 September 1994
Peter Tyer	- appointed 12 January 1995
David Welton	- resigned 31 December 1994
Mark Wood	- appointed 8 March 1994

REPORT OF THE DIRECTORS

FOR YEAR ENDED 31 DECEMBER 1994 - continued

5. INSURANCE OF DIRECTORS

The AA Group maintains liability insurance for the Directors of Automobile Association Insurance Services Holdings Limited in respect of their duties as Directors of the Group.

6. DIRECTORS' INTERESTS IN SHARES OF THE COMPANY AND CONTRACTS

During 1990, a share option scheme for senior executives was established whereby the executives were granted options to subscribe for shares in the Company. These options are exercisable between 1 January 1993 and 1 January 1997 at a price of £5.25 per ordinary share. Under this scheme, a total of 167,771 (1993, 167,771) options over ordinary shares have been granted; the movement in the share options of the Directors were:

	1 January 1994	Exercised in year	31 December 1994	Exercised in 1995
Jim Atkinson	17,143	17,143	-	-
David Hiddleston	4,800	2,400	2,400	2,400
George Lowe	34,285	22,857	11,428	11,428
David Welton	8,571	-	8,571	8,571

None of the Directors had any other beneficial interest in the issued share capital of any group company at 31 December 1994, and at the date of this report. None of the Directors had any beneficial interest in any contract of significance to which the Company was a party during the year.

7. FIXED ASSETS

The movements in fixed assets during the year are set out in notes 11 to 13 to the financial statements. At the end of the year, the group transferred one of its properties to The Automobile Association at its net book value of £9.5 million.

8. MARKET VALUE OF INTERESTS IN LAND AND BUILDINGS

In the opinion of the Directors, the current open market value on an existing use basis of the freehold and leasehold land and buildings was approximately £8 million less than the amount of £22 million at which they are included in the balance sheet at 31 December 1994. The directors consider there has been no permanent diminution in the value of these assets to the group.

9. DISABLED PERSONS

During the year, the Company gave full consideration to applications for employment from disabled persons whether registered or not, having regard to their particular aptitude and abilities. Disabled persons employed by the Company participate as appropriate in training and career development schemes. It is the Company's policy where an employee becomes disabled while employed, to make arrangements, wherever possible, for the employee either to continue in the same job or to be offered retraining for alternative employment.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 1994 - continued

10. EMPLOYEE COMMUNICATION AND INVOLVEMENT

Throughout the AA Group, employee communication and consultation schemes operate to increase the effectiveness of the Group's operations for the mutual benefit of members, customers and employees. All employees have the opportunity to attend communication meetings or team briefings to receive information and to feedback their views on financial performance, business developments, service standards or other local operational developments. Additionally, within these meetings, employees have the opportunity to raise any other matters relevant to the Group's activities. In accordance with agreements which exist with TUC-affiliated unions, a variety of matters relating to employees' terms and conditions of employment are jointly kept under review by National Joint Committees.

All employees within the Group are able to share in the success of the organisation through participating 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 upon the success of the AA Group in attaining its long-term strategic aims.

11. CHARITABLE DONATIONS

During the year, donations to charities amounted to £11,510 (1993, Nil). No political donations were made.



BY THE ORDER OF THE BOARD

COLIN SKEEN

BASINGSTOKE, 24 MARCH 1995

SECRETARY

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 21, 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 HOLDINGS LIMITED**

We have audited the financial statements on pages 5 to 21.

Respective responsibilities of directors and auditors

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

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company and the Group at 31 December 1994 and of the loss, total recognised gains and losses 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

COOPERS & LYBRAND
CHARTERED ACCOUNTANTS AND REGISTERED AUDITORS

SOUTHAMPTON, 24 MARCH 1995

ACCOUNTING POLICIES

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

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 net book 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 the brokerage receivable on all insurance premiums credited to underwriters in the Company's books and for two-thirds of the brokerage on premiums received 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 Company has agreed with some underwriters that additional commission may be receivable dependent upon certain underwriting criteria. The credit for these additional amounts is taken when the value is confirmed by the underwriter.

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

Depreciation

Depreciation is calculated so as to write off the cost of fixed assets on a straight line basis over the expected useful economic lives of the assets concerned. 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%

Amortisation of leasehold properties commences on 1 January following occupation.

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%.

ACCOUNTING POLICIES- continued**Operating leases**

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

Deferred taxation

Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. Provision is made at the rate which is expected to be applied when the liability or asset is expected to crystallise.

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 shown as an asset or liability in the balance sheet.

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.

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.

Investments

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

ACCOUNTING POLICIES - continued**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, it has followed generally accepted accounting practice by showing cash, debtors and creditors relating to insurance business as assets and liabilities of the undertakings themselves.

Government grants

Grants receivable relating to depreciable assets are taken to deferred income account and credited to profit and loss account over the estimated useful lives of the relevant assets. Revenue grants are credited to the profit and loss account in the same period as the expenditure for which the grant is being received, is incurred.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1994

	Note	1994 £'000	1993 £'000
TURNOVER	1	130,455	162,788
Operating expenditure		(122,748)	(139,352)
Exceptional operating expenditure	2	(17,895)	-
Total operating expenditure		<u>(140,643)</u>	<u>(139,352)</u>
Other interest receivable and similar income	3	7,845	8,350
Interest payable and similar charges	4	<u>(626)</u>	<u>(106)</u>
(LOSS)/PROFIT BEFORE TAXATION	5	(2,969)	31,680
TAXATION ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES	8	1,147	(8,888)
(LOSS)/PROFIT FOR THE FINANCIAL YEAR		<u>(1,822)</u>	<u>22,792</u>
DIVIDENDS	10	-	(11,484)
RETAINED (LOSS)/PROFIT FOR THE YEAR		<u>(1,822)</u>	<u>11,308</u>
RETAINED PROFIT AT 1 JANUARY 1994		<u>36,112</u>	<u>24,804</u>
RETAINED PROFIT AT 31 DECEMBER 1994		<u><u>34,290</u></u>	<u><u>36,112</u></u>

All items dealt with in arriving at the results before taxation for both 1994 and 1993 relate to continuing operations.

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

The Company has no recognised gains or losses in 1994 and 1993, other than the loss for the financial year reported above and, therefore, no separate statement of total recognised gains or losses is presented.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 DECEMBER 1994

	1994 £'000	1993 £'000
(Loss)/profit for the financial year	(1,822)	22,792
Dividends	-	(11,484)
New share capital issued	273	1,103
Net (reduction from)/addition to shareholders' funds	<u>(1,549)</u>	<u>12,411</u>
Opening shareholders' funds	58,669	46,258
Closing shareholders' funds	<u><u>57,120</u></u>	<u><u>58,669</u></u>

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

BALANCE SHEETS - 31 DECEMBER 1994

		GROUP		COMPANY	
	Note	1994 £'000	1993 £'000	1994 £'000	1993 £'000
FIXED ASSETS					
Tangible assets	11	28,110	40,423	-	-
Investments in group undertakings	12	-	-	126,411	126,411
Other investments other than loans	13	452	478	-	-
CURRENT ASSETS					
Debtors	14	70,745	80,945	2,853	13,663
Investments	15	45,390	61,000	-	-
Cash at bank and in hand		20,768	6,737	5,113	1,310
		<u>136,903</u>	<u>148,682</u>	<u>7,966</u>	<u>14,973</u>
CREDITORS: amounts falling due within one year	16	<u>(91,916)</u>	<u>(114,051)</u>	<u>(2,947)</u>	<u>(12,389)</u>
NET CURRENT ASSETS		<u>44,987</u>	<u>34,631</u>	<u>5,019</u>	<u>2,584</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>73,549</u>	<u>75,532</u>	<u>131,430</u>	<u>128,995</u>
CREDITORS: amounts falling due after more than one year	17	-	(4,203)	-	(703)
PROVISIONS FOR LIABILITIES AND CHARGES	18	<u>(16,429)</u>	<u>(12,660)</u>	<u>-</u>	<u>-</u>
		<u><u>57,120</u></u>	<u><u>58,669</u></u>	<u><u>131,430</u></u>	<u><u>128,292</u></u>
CAPITAL AND RESERVES					
Called up share capital	21	21,518	21,466	21,518	21,466
Share premium account	22	1,312	1,091	1,312	1,091
Capital reserve	22	-	-	105,000	105,000
Profit and loss account	23	34,290	36,112	3,600	735
EQUITY SHAREHOLDERS' FUNDS		<u><u>57,120</u></u>	<u><u>58,669</u></u>	<u><u>131,430</u></u>	<u><u>128,292</u></u>

The financial statements on pages 5 to 21 were approved by the Board of Directors on 24 March 1995 and were signed on its behalf by:

SIMON DYER

MARK WOOD

) DIRECTORS

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 1994

	Note	1994 £'000	1993 £'000
Net cash inflow from operating activities	25	9,287	24,278
Returns on investments and servicing of finance			
Dividends paid		(11,484)	(11,342)
Net cash outflow from returns on investments and servicing of finance		<u>(11,484)</u>	<u>(11,342)</u>
Taxation			
UK corporation tax paid		<u>(7,392)</u>	<u>(8,931)</u>
Tax paid		<u>(7,392)</u>	<u>(8,931)</u>
Investing activities			
Purchases of tangible fixed assets		(1,197)	(5,725)
Purchase of unlisted investments		(437)	-
Disposals of tangible fixed assets		292	283
Disposals of unlisted investments		437	-
Net cash outflow from investing activities		<u>(905)</u>	<u>(5,442)</u>
Financing			
Issue of ordinary share capital		273	1,103
Net cash inflow from financing		<u>273</u>	<u>1,103</u>
(Decrease)/increase in cash and cash equivalents	26	<u><u>(10,221)</u></u>	<u><u>(334)</u></u>

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1994

1. TURNOVER

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

2. EXCEPTIONAL OPERATING EXPENDITURE

The exceptional charge represents the cost of redundancies and other related expenditure following reorganisations. The taxation charge was reduced by £3,928,000 arising from this charge.

3. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	1994 £'000	1993 £'000
Bank interest receivable	3,667	3,684
Other interest receivable	1,022	2,548
Other income	3,156	2,118
	<u>7,845</u>	<u>8,350</u>

Other interest receivable arises out of an agreement with the Group's bankers whereby the Group's bank balance is pooled with that of The Automobile Association and other group undertakings. Interest is calculated using commercial rates of interest.

4. INTEREST PAYABLE AND SIMILAR CHARGES

	1994 £'000	1993 £'000
Interest payable on sums wholly repayable within five years	<u>626</u>	<u>106</u>

5. (LOSS)/PROFIT BEFORE TAXATION

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

	1994 £'000	1993 £'000
Depreciation of tangible fixed assets	3,447	3,192
Furniture and fittings written off	178	693
Fees paid to the auditors:		
Audit (parent company £4,900, 1993 £5,300)	107	106
Other	31	28
Hire of plant and machinery	20	37
Operating leases	4,553	5,082

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1994 - continued

6. DIRECTORS' EMOLUMENTS

	1994 £'000	1993 £'000
Emoluments of directors, including pension contributions:		
For management services	609	780
Special payments (see below)	361	-
	<u>970</u>	<u>780</u>
Compensation for loss of office, including pension contributions	190	319
	<u>1,160</u>	<u>1,099</u>

The emoluments disclosed above (excluding pension contributions and compensation for loss of office) include amounts paid to:

The Chairman	<u>£50,296</u>	<u>£70,738</u>
The highest paid director	<u>£497,797</u>	<u>£156,452</u>

Number of directors whose emoluments were within the ranges:

	No	No
Nil - £5,000	3	3
£20,001 - £25,000	1	-
£50,001 - £55,000	1	-
£55,001 - £60,000	1	-
£60,001 - £65,000	1	1
£70,001 - £75,000	-	1
£95,001 - £100,000	1	-
£105,001 - £110,000	1	-
£110,001 - £115,000	-	2
£115,001 - £120,000	-	1
£155,001 - £160,000	-	1
£495,001 - £500,000	1	-

Special payments were made to a director to compensate him for share option rights forfeited when he terminated his previous employment.

7. EMPLOYEES

The average number of persons employed by the Group including executive directors, during the year was 4,695 (1993, 5,050). At 31 December 1994, the number of persons employed was 3,731.

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

	1994 £'000	1993 £'000
Wages and salaries	47,250	49,903
Social security costs	3,314	3,682
Other pension costs	3,438	3,260
	<u>54,002</u>	<u>56,845</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1994 - continued

EMPLOYEES - continued

These staff costs represent costs directly incurred by the Group and exclude the cost of redundancies and other related expenditure, included in exceptional expenditure; in addition, the following staff costs were allocated to the Group by other AA Group undertakings and by the Group to other AA Group undertakings:

	Allocations in		Allocations out	
	1994	1993	1994	1993
	£'000	£'000	£'000	£'000
Wages and salaries	8,322	6,766	4,575	134
Social security costs	559	501	306	-
Other pension costs	578	513	315	17
	<u>9,459</u>	<u>7,780</u>	<u>5,196</u>	<u>151</u>

-8. TAXATION ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

	1994	1993
	£'000	£'000
United Kingdom corporation tax at 33% (1993, 33%)		
Current	1,814	12,195
Deferred	(1,704)	(98)
Group relief claimed	(637)	(3,284)
Under/(over) provision in respect of prior years		
Corporation tax	(1,741)	(424)
Deferred	1,121	499
	<u>(1,147)</u>	<u>8,888</u>

-9. PROFIT OF AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

Of the consolidated loss for the year of £1,822,000 (1993, profit £22,792,000), a profit of £2,865,000 (1993, £12,056,000) 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.

10. DIVIDENDS

	1994	1993
	£'000	£'000
Ordinary:		
Proposed dividend of £NIL per share (1993, 53.5p)	-	11,484

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1994 - continued

11. TANGIBLE FIXED ASSETS

	Land and Buildings Freehold £'000	Leasehold Short £'000	Equipment and motor vehicles £'000	Total £'000
Cost				
At 1 January 1994	27,693	9,838	14,755	52,286
Additions	57	116	1,157	1,330
Intra-group transfers	(10,410)	(27)	(278)	(10,715)
Disposals	-	(60)	(2,423)	(2,483)
At 31 December 1994	17,340	9,867	13,211	40,418
Depreciation				
At 1 January 1994	2,009	2,852	7,002	11,863
Charge for the year	454	640	2,353	3,447
Intra-group transfers	(895)	-	(128)	(1,023)
Disposals	-	(60)	(1,919)	(1,979)
At 31 December 1994	1,568	3,432	7,308	12,308
Net book value				
At 31 December 1994	15,772	6,435	5,903	28,110
At 31 December 1993	25,684	6,986	7,753	40,423

12. FIXED ASSET INVESTMENTS

	1994 £'000	1993 £'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 Brokers Limited	Insurance broking
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 1994 - continued

13. OTHER INVESTMENTS OTHER THAN LOANS

	1994 £'000	1993 £'000
Cash deposits	437	-
Government securities (market value £16,000, 1993, £476,000)	15	478
	<u>452</u>	<u>478</u>

14. DEBTORS

Amounts falling due within one year

	GROUP		COMPANY	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000
Trade debtors	64,148	76,596	-	-
Amounts owed by group undertakings	-	-	2,831	12,080
Other debtors	5,390	3,051	22	880
Prepayments and accrued income	1,207	1,178	-	-
	<u>70,745</u>	<u>80,825</u>	<u>2,853</u>	<u>12,960</u>

Amounts falling due after
more than one year

Deferred taxation (note 18)	-	120	-	703
	<u>70,745</u>	<u>80,945</u>	<u>2,853</u>	<u>13,663</u>

15. CURRENT ASSET INVESTMENTS

	GROUP		COMPANY	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000
Short term deposits	<u>45,390</u>	<u>61,000</u>	-	-

16. CREDITORS

Amounts falling due within one year

	GROUP		COMPANY	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000
Bank loans and overdrafts	20,095	7,953	-	-
Trade creditors	49,662	59,669	-	-
Amounts owed to group undertakings	6,781	15,595	2,947	-
Corporation tax	-	6,901	-	-
Other creditors	14,686	9,873	-	905
Accruals and deferred income	692	2,576	-	-
Dividends payable	-	11,484	-	11,484
	<u>91,916</u>	<u>114,051</u>	<u>2,947</u>	<u>12,389</u>

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1994 - continued

17. CREDITORS

Amounts falling due after more than one year

	GROUP		COMPANY	
	1994	1993	1994	1993
	£'000	£'000	£'000	£'000
Mortgage	-	3,500	-	-
Advance corporation tax	-	703	-	703
	-	4,203	-	703

The mortgage, which is secured on freehold land and buildings, is repayable in full in 1995 and is included in bank loans and overdrafts within current liabilities at 31 December 1994. The rate of interest is linked to LIBOR.

18. PROVISIONS FOR LIABILITIES AND CHARGES

	Pensions and similar obligations (note 19)	Deferred taxation (note 20)	Other provisions	Total
GROUP	£'000	£'000	£'000	£'000
At 1 January 1994	12,560	-	100	12,660
Included in debtors	-	(120)	-	(120)
Transfer from group undertakings	2,401	-	-	2,401
Charge/(credit) for the year	3,641	(583)	-	3,058
ACT recoverable	-	703	-	703
Utilised in the year	(2,273)	-	-	(2,273)
At 31 December 1994	16,329	-	100	16,429
COMPANY				
At 1 January 1994	-	(703)*	-	(703)*
ACT recoverable	-	703	-	703
At 31 December 1994	-	-	-	-

* These amounts are included in debtors.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1994 - continued

19. PENSIONS AND SIMILAR OBLIGATIONS

Pensions

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 R Watson & Sons, Consulting Actuaries, certify 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.

Details relating to the latest actuarial valuation of the schemes are contained in the financial statements of The Automobile Association.

Other retirement benefits

The Company has a commitment to provide post-retirement private medical insurance cover for certain current and past employees. The provision of £1,549,000 at 31 December 1994 (1993, £1,020,000) was established on an actuarial basis, assuming a 4% per annum real increase in premiums.

20. DEFERRED TAXATION

The deferred taxation provision and full potential liability/(asset) are set out below:

	1994 Full potential liability/(asset) £'000	1994 Provision made £'000	1993 Full potential liability/(asset) £'000	1993 Provision made £'000
GROUP				
Timing differences on				
Fixed assets	4,810	4,810	5,103	5,103
Provisions for pensions and similar obligations	(4,838)	(4,810)	(3,906)	(3,906)
Other items	(2,218)	-	(614)	(614)
ACT recoverable	-	-	(703)	(703)
	<u>(2,246)</u>	<u>-</u>	<u>(120)</u>	<u>(120)*</u>
COMPANY				
ACT recoverable	<u>-</u>	<u>-</u>	<u>(703)</u>	<u>(703)*</u>

* These amounts are included in debtors.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1994 - continued

1. CALLED UP SHARE CAPITAL

	1994 £'000	1993 £'000
Ordinary shares of £1 each Authorised	30,000	30,000
Issued, called up and fully paid	21,518	21,466

During the year, 52,000 ordinary shares of £1 each were allotted for cash consideration of £273,000 under the share option scheme. Subsequent to the end of the year, a further 31,771 ordinary shares of £1 were allotted under this scheme.

22. UNDISTRIBUTABLE RESERVES

	GROUP		COMPANY	
	Share premium account £'000	Capital reserve £'000	Share premium account £'000	Capital reserve £'000
At 1 January 1994	1,091	-	1,091	105,000
Premium on shares issued (note 21)	221	-	221	-
At 31 December 1994	1,312	-	1,312	105,000

The cumulative amount of goodwill, which has all been written off against the share premium account, is £105 million (1993, £105 million).

23. PROFIT AND LOSS ACCOUNT

	GROUP £'000	COMPANY £'000
At 1 January 1994	36,112	735
Retained (loss)/profit for the year	(1,822)	2,865
At 31 December 1994	34,290	3,600

24. COMMITMENTS

	GROUP		COMPANY	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000
Capital				
Expenditure contracted for Approved by the directors but not contracted for	93	198	-	-
Approved expenditure outstanding	3,181	6,958	-	-
	3,274	7,156	-	-

AUTOMOBILE ASSOCIATION INSURANCE SERVICES HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1994 - continued

4. COMMITMENTS - continued

Operating leases

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

GROUP	Land and buildings	
	1994	1993
	£'000	£'000
Next year	122	133
Second to fifth year from balance sheet date	388	340
Thereafter	3,642	4,522
	<u>4,152</u>	<u>4,995</u>

25. RECONCILIATION OF (LOSS)/PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1994	1993
	£'000	£'000
(Loss)/profit before taxation	(2,969)	31,680
Depreciation charges	3,447	3,192
Loss on sale of fixed assets	415	80
Provisions for pensions and similar obligations	1,367	2,791
Other provisions	-	(2,893)
Non cash items	<u>5,229</u>	<u>3,170</u>
Decrease in:		
Debtors	10,234	3,333
Creditors	(3,207)	(13,905)
Movement in working capital	<u>7,027</u>	<u>(10,572)</u>
Net cash inflow from operating activities	<u>9,287</u>	<u>24,278</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1994 - continued

26. ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS DURING THE YEAR

	Cash at bank and in hand	Cash equivalents (see below)	Bank loans/ overdrafts	Total
	£'000	£'000	£'000	£'000
At 1 January 1993	18,618	41,500	-	60,118
Net cash inflow/(outflow) for 1993	(11,881)	19,500	(7,953)	(334)
At 31 December 1993	6,737	61,000	(7,953)	59,784
Net cash inflow/(outflow) for 1994	14,031	(15,610)	(8,642)	(10,221)
At 31 December 1994	20,768	45,390	(16,595)	49,563

Cash equivalents include short term investments with an original maturity of within three months.

27. ULTIMATE OWNERSHIP

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