

**AUTOMOBILE ASSOCIATION
INSURANCE SERVICES LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**



Registered number: 2414212

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2005

The directors present their report and audited financial statements of Automobile Association Insurance Services Limited (the "Company") for the year ended 31 December 2005.

REVIEW OF ACTIVITIES AND FUTURE DEVELOPMENTS

The profit and loss account for the year is set out on page 5.

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

During 2005 personal insurance remained an intensely competitive market continuing the downward trend in premiums from 2004. Against this backdrop the Company successfully grew the motor insurance portfolio and maintained its home insurance portfolio. Growth was driven by the development of the internet channel via an enhanced website and increased marketing to drive sales volumes in this channel. In addition more competitive prices were introduced.

Cost savings were achieved during the year as a result of an intensive restructuring programme; these savings were reinvested in increased marketing spend. Further savings are expected from the restructuring of call centre operations which was completed towards the end of 2005; these savings will largely be reinvested to achieve further turnover growth. The focus in 2006 will be to increase marketing investment building on the success of the internet sales channel along with the refinement of pricing strategies and the launch of new products to broaden the Company's existing range. Significant investment in systems will underpin the Company's restructured operations.

The Company is authorised and regulated as an insurance intermediary by the Financial Services Authority.

DIVIDENDS

The directors do not recommend the payment of a dividend for the year (2004: £nil).

Profit after tax for the year of £11,143,000 has been transferred to reserves.

DIRECTORS

The directors of the Company were as follows:

Timothy Parker	
Sir Trevor Chinn	(resigned 18 January 2005)
Nigel Clark	(resigned 28 February 2006)
Paul Woolf	
Kerry Cooper	
Steven Dewey	
Trevor Didcock	
Neale Phillips	(resigned 28 February 2005)
Martin Sawkins	
Kevin Sinclair	(appointed 1 May 2005)
William Treen	(appointed 1 September 2005)

At no time did any director, holding office at 31 December 2005, have any interest in the shares of the Company, or any other Company within the AA Top Co Limited group, except for interests in the shares of the ultimate parent Company, AA Top Co Limited.

Details of the interests of Timothy Parker, Sir Trevor Chinn and Paul Woolf in the shares in the ultimate parent company, AA Top Co Limited, are shown in that company's financial statements for 2005.

Details of the shareholdings and remuneration of other directors are included in note 5 to the financial statements.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

CREDITOR PAYMENT POLICY

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

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

EMPLOYMENT POLICIES

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

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

FINANCIAL RISKS

The most important components of financial risk impacting the Company are interest rate risk, credit risk and liquidity risk.

Interest rate risk arises from inter-company balances which bear interest at LIBOR plus a margin and from short term investments held with financial institutions. The directors have reviewed the Company's exposure to interest rates and have concluded that the risk is appropriate in relation to financial results of the Company. No action has therefore been taken to mitigate the Company's exposure to movements in interest rates.

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The exposure on any individual counterparty is assessed as very low so the directors believe that the credit risk for the Company is acceptable.

Liquidity risk is the risk that cash may not be available to pay obligations when due. This risk is managed centrally by the Treasury team, within parameters set by the Group. The directors are satisfied that the Company is not subject to significant liquidity risk.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 these financial statements, 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 accounts comply with the Companies Act 1985.

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

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

AUDITORS

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

BY ORDER OF THE BOARD

A handwritten signature in black ink, appearing to be 'PW' followed by a stylized flourish.

PAUL WOOLF
DIRECTOR
6 April 2006

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

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

We have audited the financial statements of Automobile Association Insurance Services Limited for the year ended 31 December 2005 which comprise the profit and loss account, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described in the Statement of Directors' Responsibilities the Company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

BASIS OF AUDIT OPINION

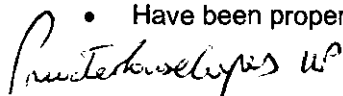
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- Have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP

CHARTERED ACCOUNTANTS AND REGISTERED AUDITORS

LONDON, 6 April 2006

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 £'000	2004 £'000
TURNOVER	2	188,550	150,613
Operating expenditure, before exceptional items		(140,281)	(143,061)
Exceptional items	6	(31,067)	(15,680)
Total operating expenditure	3	(171,348)	(158,741)
Other operating income		-	2,375
OPERATING PROFIT/(LOSS)		17,202	(5,753)
Loss on disposal of fixed assets		(2,805)	-
Interest receivable and similar income	7	11,223	4,503
Interest payable and similar costs	8	(10,187)	(2,464)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		15,433	(3,714)
TAXATION ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES	9	(4,290)	(1,476)
PROFIT/(LOSS) FOR THE FINANCIAL YEAR	18	11,143	(5,190)

All items dealt with in arriving at the results before taxation for both 2005 and 2004 relate to continuing operations.

The Company has no recognised gains or losses in 2005 and 2004, other than those included in the results for the financial years reported above and, therefore, no separate statement of total recognised gains and losses is presented.

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

The notes on pages 7 to 16 form part of these financial statements.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

BALANCE SHEET AT 31 DECEMBER 2005

	Notes	2005 £'000	2004 As restated £'000
FIXED ASSETS			
Tangible assets	10	17,296	21,203
Other investments	11	452	452
		<u>17,748</u>	<u>21,655</u>
CURRENT ASSETS			
Debtors	12	297,127	210,416
Investments	13	7,155	-
Cash at bank and in hand		40,082	104,082
		<u>344,364</u>	<u>314,498</u>
CREDITORS (amounts falling due within one year)	14	<u>(226,678)</u>	<u>(205,938)</u>
NET CURRENT ASSETS		<u>117,686</u>	<u>108,560</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>135,434</u>	<u>130,215</u>
PROVISIONS FOR LIABILITIES AND CHARGES	15	<u>(7,858)</u>	<u>(13,782)</u>
NET ASSETS		<u>127,576</u>	<u>116,433</u>
CAPITAL AND RESERVES			
Called up share capital	17	19,000	19,000
Profit and loss account	18	108,576	97,433
EQUITY SHAREHOLDERS' FUNDS	19	<u>127,576</u>	<u>116,433</u>

The 2004 comparatives for short-term deposits have been re-stated to nil from £88.9m to reflect a more appropriate classification consistent with that adopted in 2005. There is no impact on net assets.

The financial statements on pages 5 to 16 were approved by the board of directors on 6 April 2006 and were signed on its behalf by:



PAUL WOOLF
DIRECTOR

The notes on pages 7 to 16 form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention and the Companies Act 1985. A summary of the accounting policies, which have been applied on a consistent basis with the prior year, is set out below.

Basis of accounting

The Company is exempt from the requirement to prepare consolidated financial statements as it is a wholly owned subsidiary of AA Top Co Limited, whose consolidated financial statements are publicly available. The Company is also exempt from the requirement to prepare a cash flow statement under FRS 1 (Revised).

Turnover

Turnover represents commissions on insurance policies and income from related credit products. It excludes value added tax and insurance premium tax.

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

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

Tangible fixed assets

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

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

Operating leases

Rentals under operating leases are charged to the profit and loss account as incurred. Provision is made for future property costs, net of future sub-let income in respect of vacant properties, up to the estimated date of final disposal.

Retirement benefits

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

Certain of the Company's employees are members of the AA Pension Scheme which is a defined benefit scheme. During 2004 some employees were also members of the Centrica Pension Scheme or the Centrica Management Scheme, both of which were also defined benefit schemes. The Company is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis and has therefore accounted for pension costs as if these schemes were defined contribution schemes. Accordingly the amounts charged to the profit and loss account are the contributions payable in the year.

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

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

Investments

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

Insurance broking debtors and creditors

Insurance brokers usually act as agents in placing contracts of insurance between insurers and their clients and, as such, generally are not liable as principals for amounts arising from such transactions. However they do collect and settle monies as agent ("fiduciary monies") in respect of these transactions.

The Company holds these fiduciary monies as agent of the insurer under explicit risk transfer arrangements and therefore the insurers retain credit risk for any cash held in transit by the Company.

In the opinion of the Directors, it is appropriate to recognise monies, along with corresponding onward liabilities, in the Balance Sheet, once the fiduciary monies have been received. In the opinion of the Directors it is also appropriate to recognise the fiduciary debtors and creditors in respect of unsettled premiums prior to the receipt of these fiduciary monies as the Company has contractual rights to amounts due through credit agreements with individual policy holders.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 TURNOVER

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

Gross sales where the Company acts as agent on behalf of insurance underwriters were £866 million (2004: £560 million).

3 OPERATING COSTS

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

	2005	2004
	£'000	£'000
Employment costs (see note 4)	54,321	42,018
Depreciation of tangible fixed assets	3,227	5,491
Fees payable to the auditors:		
Audit	100	75
Operating lease rentals:		
Land and buildings	979	621
Motor vehicles	171	197
Other external charges	81,483	94,659
Exceptional items (see note 6)	31,067	15,680
	<u>171,348</u>	<u>158,741</u>

4 EMPLOYEES

The average number of persons employed by the Company, including executive directors, during the year was 2,272 (2004: 2,180).

Staff costs, including remuneration to executive directors but excluding any redundancy costs included in note 6, during the year amounted to:

	2005	2004
	£'000	£'000
Wages and salaries	46,476	35,421
Social security costs	2,807	2,847
Other pension costs	5,038	3,750
	<u>54,321</u>	<u>42,018</u>

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 DIRECTORS EMOLUMENTS AND SHAREHOLDING

	2005 £'000	2004 £'000
Aggregate emoluments	<u>311</u>	<u>261</u>
Amounts receivable under long-term incentive schemes	<u>-</u>	<u>382</u>
Compensation for loss of office	<u>88</u>	<u>108</u>

The emoluments and shareholdings shown relate only to Neale Philips, Kevin Sinclair and William Treen, whose remuneration was wholly or partly in respect of their services to the Company. Retirement benefits are accruing to two (2004: two) directors under defined benefit schemes.

The emoluments of the highest paid director were £159,026 (2004: £630,037). The accrued annual pension of the highest paid director was £961 (2004: £8,485).

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

The other directors are employed by The Automobile Association Limited; their services to this company and to a number of fellow subsidiaries are of a non-executive nature and their emoluments are deemed to be wholly attributable to their services to The Automobile Association Limited. Accordingly no emoluments have been disclosed in respect of them. Beneficial interests of directors in the shares of AA Top Co Limited at 31 December 2005 were:

	"A" ordinary shares	"B" ordinary shares
William Treen	-	-
Martin Sawkins	40,500	2,025
Nigel Clark	40,500	2,025
Kerry Cooper	48,500	2,425
Steven Dewey	48,500	2,425
Trevor Didcock	32,500	1,625
Kevin Sinclair	72,500	3,625

The above directors held no shares at 1 January 2005 or at the time of their appointment.

The beneficial interests of the directors in subordinated preference certificates held through the employee share trust as at 31 December 2005 were :

	Acquired at cost 25 February 2005	Redeemed 23 March 2005	Outstanding At cost 31 December 2005	Gain on redemption 23 March 2005
Nigel Clark	£2,499.60	£208.60	£2,291.00	£2.40
Steven Dewey	£9,998.41	£834.40	£9,164.01	£9.60
Trevor Didcock	£9,998.41	£834.40	£9,164.01	£9.60
Martin Sawkins	£9,998.41	£834.40	£9,164.01	£9.60
Kerry Cooper	£5,499.13	£458.92	£5,040.21	£5.28

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 DIRECTORS EMOLUMENTS AND SHAREHOLDING (continued)

The beneficial interests of the directors in "B" ordinary shares held through the employee share trust as at 31 December 2005 were -

	"B" ordinary shares
Nigel Clark	10
Steven Dewey	40
Trevor Didcock	40
Martin Sawkins	40
Kerry Cooper	22

6 EXCEPTIONAL ITEMS

	2005 £'000	2004 £'000
Restructuring costs	<u>31,067</u>	<u>15,680</u>
	<u>31,067</u>	<u>15,680</u>

The Company incurred restructuring costs of £31.1m (2004: £15.7m) comprising redundancy costs, professional fees and the restructuring of Insurance intermediary call centres.

7 INTEREST RECEIVABLE AND SIMILAR INCOME

	2005 £'000	2004 £'000
Bank interest receivable	4,751	4,503
Interest receivable from group undertakings	<u>6,472</u>	<u>-</u>
	<u>11,223</u>	<u>4,503</u>

8 INTEREST PAYABLE AND SIMILAR COSTS

	2005 £'000	2004 £'000
Interest payable to group undertakings	9,528	2,464
Other interest payable	<u>659</u>	<u>-</u>
	<u>10,187</u>	<u>2,464</u>

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

9 TAXATION ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

The tax charge/(credit) comprises:	2005	2004
	£'000	£'000
UK Corporation tax at 30% (2004: 30%):		
- Current Year	3,661	-
- Prior Year	-	(2,424)
Total current tax	<u>3,661</u>	<u>(2,424)</u>
Deferred tax:		
- Current year	1,408	(1,744)
- Prior year	(779)	5,644
Total deferred tax (note 16)	<u>629</u>	<u>3,900</u>
Total tax charge on ordinary activities	<u>4,290</u>	<u>1,476</u>

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

	2005	2004
	£'000	£'000
Profit/(loss) on ordinary activities before tax	<u>15,433</u>	<u>(3,714)</u>
Tax on profit/(loss) on ordinary activities at standard UK corporation tax rate of 30% (2004: 30%)	4,630	(1,114)
Effects of:		
Permanent timing differences	438	-
Short term timing differences	73	-
Expenses not deductible for tax purposes		60
Capital allowances in excess of depreciation	707	387
Other timing differences		598
Utilisation of bought forward losses	(2,187)	-
Losses not recognised	-	759
Utilisation of group capital losses	-	(690)
Adjustments to tax charge in respect of previous years	-	(2,424)
Current tax charge/(credit) for the year	<u>3,661</u>	<u>(2,424)</u>

Any corporation tax liabilities of the Company as at 30 September 2004 are covered by an indemnity from the previous ultimate parent undertaking, which would be payable to AA Acquisition Co Limited, an intermediate parent undertaking.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

10 TANGIBLE FIXED ASSETS

	Land and buildings		Equipment and motor Vehicles	Total
	Freehold £'000	Short Leasehold £'000	£'000	£'000
Cost				
At 1 January 2005	13,962	4,364	22,701	41,027
Additions	-	-	2,199	2,199
Intra-group transfers	-	-	(47)	(47)
Disposals	-	-	(12,605)	(12,605)
At 31 December 2005	13,962	4,364	12,248	30,574
Depreciation				
At 1 January 2005	3,376	4,364	12,084	19,824
Charge for the year	263	-	2,964	3,227
Intra-group transfers	-	-	27	27
Disposals	-	-	(9,800)	(9,800)
At 31 December 2005	3,639	4,364	5,275	13,278
Net book value				
At 31 December 2005	10,323	-	6,973	17,296
At 31 December 2004	10,586	-	10,617	21,203

11 OTHER INVESTMENTS

	2005	2004
	£'000	£'000
Cash deposits	<u>452</u>	<u>452</u>

12 DEBTORS

	2005	2004
	£'000	£'000
<i>Amounts receivable within one year</i>		
Trade debtors	132,265	129,796
Amounts owed by group undertakings	163,524	79,630
Other debtors	446	540
Prepayments and accrued income	892	450
	<u>297,127</u>	<u>210,416</u>

Amounts owed by group undertakings are unsecured, have no repayment terms and bear interest at LIBOR plus a margin.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

13 INVESTMENTS

	2005	2004
	£'000	As restated £'000
Short-term deposits	<u>7,155</u>	<u>-</u>

Current asset investments included £7.2m (2004: nil) and cash at bank included nil (2004: £38.5m), which arise from insurance broking transactions. These sums are not readily available for other purposes within the Company.

The 2004 comparatives for short-term deposits have been re-stated to nil from £88.9m to reflect a more appropriate classification consistent with that adopted in 2005. There is no impact on net assets.

14 CREDITORS (amounts falling due within one year)

	2005	2004
	£'000	As restated £'000
Bank loans and overdrafts	76	60
Insurance creditors	37,747	37,811
Amounts owed to group undertakings	158,678	150,745
Taxation and social security	2,558	1,730
Other creditors	2,018	3,752
Accruals and deferred income	25,601	11,840
	<u>226,678</u>	<u>205,938</u>

The amounts owed to group undertakings are unsecured, have no repayment terms and bear interest at LIBOR plus a margin.

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

15 PROVISIONS FOR LIABILITIES AND CHARGES

	Empty Property Provisions £'000	Restructuring £'000	Deferred Corporation Tax £'000	Total £'000
At 1 January 2005	2,710	10,426	646	13,782
Charged in the year	688	2,731	629	4,048
Utilised in the year	(582)	(9,390)	-	(9,972)
At 31 December 2005	<u>2,816</u>	<u>3,767</u>	<u>1,275</u>	<u>7,858</u>

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

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

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

16 DEFERRED TAXATION

Deferred tax liabilities/(assets) comprise:

	Amounts provided		Amounts unrecognised	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Timing differences on:				
Accelerated capital allowances	1,882	2,589	-	-
Pensions	(63)	(94)	-	-
Other short term timing differences	(544)	(1,090)	-	-
Unutilised losses	-	(759)	-	-
Capital gains rolled over	-	-	723	723
Deferred corporation tax liability (see note 15)	<u>1,275</u>	<u>646</u>	<u>723</u>	<u>723</u>

17 CALLED UP SHARE CAPITAL

	2005	2004
	£'000	£'000
Ordinary shares of £1 each		
Authorised	<u>20,000</u>	<u>20,000</u>
Issued, called up and fully paid	<u>19,000</u>	<u>19,000</u>

18 PROFIT AND LOSS ACCOUNT

	2005	2004
	£'000	£'000
At 1 January	97,433	102,623
Profit/(loss) for the financial year	<u>11,143</u>	<u>(5,190)</u>
At 31 December	<u>108,576</u>	<u>97,433</u>

19 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2005	2004
	£'000	£'000
Shareholders funds at 1 January	116,433	121,623
Profit/(loss) for the financial year	11,143	(5,190)
Shareholders' funds at 31 December	<u>127,576</u>	<u>116,433</u>

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 COMMITMENTS

Guarantees

The Company is part of a cross-company guarantee arrangement whereby it has guaranteed the overdrafts of other group undertakings. At 31 December 2005 the Company's exposure under this guarantee was £28,000 (2004:£nil).

The Company's assets, excluding investments and cash of £7.2 million (2004: £88.9 million), have been provided as security for bank loans provided to two of the Company's parent companies.

Operating leases

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

	Land and buildings		Motor vehicles	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Next year	20	80	24	92
Second to fifth year from balance sheet date	387	312	69	108
Thereafter	1,140	1,191	-	-
	<u>1,547</u>	<u>1,583</u>	<u>93</u>	<u>200</u>

Some of the commitments for land and buildings relate to vacant properties and have been fully provided under note 15.

21 RELATED PARTY TRANSACTIONS

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

22 POST BALANCE SHEET EVENTS

On 15 March 2006, the Company entered into a sale-with-recourse of its instalment debtors in return for £100.0m of bank borrowings. These bear interest at base rate plus 0.5% and are repayable on demand.

On the same day, the Company made a one-off contribution to the AA pension scheme of £7.1m and agreed to make additional payments to the scheme over the next 3 years.

23 ULTIMATE OWNERSHIP

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

The ultimate parent undertaking, which is also the parent of the smallest and largest group to consolidate these financial statements, is AA Top Co Limited whose registered office is at Fanum House, Basing View, Basingstoke, Hampshire, RG21 4EA.

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