

AA CORPORATION LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2004



Registered number: 3797747

AA CORPORATION LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2004

The directors present their report and audited financial statements of AA Corporation Limited (the "Company") for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The principal activities of the Company during the year were that of a holding company and the provision of roadside assistance, insurance broking services and related activities in the Republic of Ireland.

BUSINESS REVIEW

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

On 29 September 2004, the Company transferred the assets and undertakings of its activities in the Republic of Ireland to the Company's wholly owned subsidiary, AA Ireland Limited, for 100% of the ordinary share capital of AA Ireland Limited. Subsequent to that date, the Company now only acts as a holding company (see note 6).

On 30 September 2004, the AA Group, in which the Company was a subsidiary, was acquired by AA Top Co Limited.

DIVIDENDS

The directors do not recommend the payment of a dividend for the year (2003: £nil).

DIRECTORS

The directors of the Company were as follows:

Tim Parker	(appointed 30 September 2004)
Sir Trevor Chinn	(appointed 30 September 2004; resigned 18 January 2005)
Grant Dawson	(resigned 30 September 2004)
Mark Clare	(resigned 30 September 2004)
Phillip Bentley	(resigned 30 September 2004)

Paul Woolf was appointed a director on 18 January 2005.

At no time did any director, holding office at 31 December 2004, 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 those directors in the shares in the ultimate parent company, AA Top Co Limited, are shown in that company's financial statements for 2004.

AA CORPORATION LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2004 (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.

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 financial statements comply with the Companies Act 1985.

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

AA CORPORATION LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2004 (continued)

AUDITORS

PricewaterhouseCoopers LLP have expressed their willingness to continue as auditors.

BY ORDER OF THE BOARD



PAUL WOOLF
DIRECTOR

29 APRIL 2005

Registered Office:
Southwood East,
Apollo Rise,
Farnborough,
Hampshire,
GU14 0JW

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AA CORPORATION LIMITED

We have audited the financial statements which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the accounting policies note.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

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

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

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' Report.

BASIS OF AUDIT OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 December 2004 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
SOUTHAMPTON 29 April 2005

AA CORPORATION LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	2004 £'000	Restated 2003 £'000
TURNOVER	2	15,175	18,716
Operating expenditure		(13,077)	(16,772)
OPERATING PROFIT	3	<u>2,098</u>	<u>1,944</u>
Profit on disposal of business	6	3,322	-
Interest receivable and similar income	7	309	438
Interest payable and similar charges	8	(239)	(135)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>5,490</u>	<u>2,247</u>
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	9	(2,517)	(605)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR	19	<u><u>2,973</u></u>	<u><u>1,642</u></u>

Details of the prior year restatements can be found in note 21.

All items dealt with in arriving at the operating profit for the year relate to discontinued 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.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 2004

		2004 £'000	Restated 2003 £'000
Profit for the financial year		2,973	1,642
Exchange adjustments, net of deferred tax		(46)	181
Actuarial (loss)/gain recognised in the pension scheme	16	(965)	909
Deferred tax arising on the actuarial gain/(loss) in the pension scheme		<u>290</u>	<u>(273)</u>
Total recognised gains relating to the year		<u>2,252</u>	<u>2,459</u>
Prior year adjustment	21	(3,430)	
Total losses recognised since last annual report		<u><u>(1,178)</u></u>	

The notes on pages 7 to 20 form part of these financial statements.

AA CORPORATION LIMITED
BALANCE SHEET AT 31 DECEMBER 2004

	Notes	2004 £'000	Restated 2003 £'000
FIXED ASSETS			
Intangible assets	10	-	2,116
Tangible assets	11	-	1,256
Investments in group undertakings	12	<u>1,231,135</u>	<u>1,230,470</u>
		1,231,135	1,233,842
CURRENT ASSETS			
Stocks	13	-	4
Debtors	14	6,295	4,263
Investments – short term deposits		-	17,128
Cash at bank and in hand		-	460
		<u>6,295</u>	<u>21,855</u>
CREDITORS: (amounts falling due within one year)	15	(135,284)	(146,326)
NET CURRENT LIABILITIES		<u>(128,989)</u>	<u>(124,471)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,102,146	1,109,371
ACCRUALS AND DEFERRED INCOME			
Subscriptions in advance		-	(5,948)
NET ASSETS EXCLUDING PENSION LIABILITY		<u>1,102,146</u>	<u>1,103,423</u>
PENSION LIABILITY	16	-	(3,529)
NET ASSETS		<u>1,102,146</u>	<u>1,099,894</u>
CAPITAL AND RESERVES			
Called up share capital	18	1,100,011	1,100,011
Profit and loss account	19	2,135	(117)
EQUITY SHAREHOLDERS' FUNDS	20	<u>1,102,146</u>	<u>1,099,894</u>

Details of the prior year restatements can be found in note 21.

The financial statements on pages 5 to 20 were approved by the board of directors on 29 APRIL 2005 and were signed on its behalf by:


PAUL WOOLF
DIRECTOR

The notes on pages 7 to 20 form part of these financial statements.

AA CORPORATION LIMITED

NOTES TO THE ACCOUNTS

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.

Basis of accounting

The Company is exempt from the requirement to prepare consolidated accounts, 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, which excludes value added tax and insurance premium tax, represents subscriptions and sales of goods and services. Subscriptions are apportioned and recognised on a time basis over the period of membership. Subscriptions in advance represent the subscription income relating to future periods.

Commission arising from insurance brokerage is taken into account when the customer has accepted and paid for the policy.

Intangible fixed assets

Goodwill arising on acquisitions is included in the balance sheet at cost, less accumulated amortisation and any provisions for impairment. Goodwill, which represents the difference between the purchase consideration and fair values of net assets acquired, is capitalised and amortised on a straight line basis over a 20 year period, which represents the directors' estimate of its useful economic life.

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. A straight-line basis is used, except where additional depreciation is charged in the period when an impairment in value is recognised. The principal annual rates used for this purpose are as follows:

Freehold properties	14%
Long leasehold properties	2% - 48%
Short leasehold properties	over the period of the leases
Equipment and motor vehicles	20% - 33.33%

AA CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

1 ACCOUNTING POLICIES (continued)

Retirement benefits

Pensions and other post retirement benefits are accounted for in accordance with FRS 17, Retirement Benefits. In previous years, the Company accounted for retirement benefits under SSAP 24. The difference arising from the change in accounting policy is disclosed in note 21.

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

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

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.

AA CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

1 ACCOUNTING POLICIES (continued)

Stocks

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

Investments

Investments are valued individually at the lower of cost or net realisable value. Income from investments is included on an accruals basis.

Foreign currencies

Transactions and balances relating to overseas operations are translated into sterling at the rates ruling at the balance sheet date.

Exchange differences arising on the retranslation of the opening net assets of overseas operations are taken to reserves.

2 SEGMENTAL ANALYSIS BY CLASS OF BUSINESS

The analysis, by class of business, of the Company's turnover is set out below:

	2004	2003
	£'000	£'000
Roadside assistance	9,859	12,664
Insurance brokerage	4,753	6,019
Other	563	33
	<u>15,175</u>	<u>18,716</u>

The Company's activities take place principally in the Republic of Ireland. A full segmental analysis is included in the financial statements of the ultimate parent undertaking and, accordingly, is not presented above as permitted under SSAP 25.

Gross sales where the Company acts as agent on behalf of insurance underwriters were £36 million (2003: £50 million).

AA CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

3 OPERATING PROFIT

The operating profit is stated after charging:

	2004 £'000	2003 £'000
Depreciation of tangible fixed assets	476	862
Amortisation of goodwill	101	134
Auditors' remuneration - audit fees	20	19
Operating lease rentals - land and buildings	<u>222</u>	<u>298</u>

4 EMPLOYEES

The average number of employees during the year was 312 (2003: 296), analysed as follows:

	2004 Number	2003 Number
Roadside assistance	151	144
Insurance brokerage	134	123
Other	<u>27</u>	<u>29</u>
	<u>312</u>	<u>296</u>

Staff costs during the year amounted to:

	2004 £'000	Restated 2003 £'000
Wages and salaries	5,240	6,699
Social security costs	524	655
Other pension costs	<u>589</u>	<u>763</u>
	<u>6,353</u>	<u>8,117</u>

5 DIRECTORS' EMOLUMENTS

Tim Parker and Sir Trevor Chinn 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.

None of the other directors during the year received emoluments in respect of their services to the Company. Mark Clare and Phillip Bentley are directors of the previous ultimate holding company, Centrica plc, their total emoluments are disclosed in the accounts of that Company, and it is not possible to make an accurate apportionment of their emoluments across all group companies. Grant Dawson as Group General Counsel and Company Secretary of Centrica plc is also a director of a number of companies within the Centrica plc group, and it is not possible to make an accurate apportionment of his emoluments in respect of each of those group companies.

AA CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

6 PROFIT ON DISPOSAL OF BUSINESS

On 29 September 2004, the Company disposed of the assets and liabilities, excluding its corporation tax liability, of its activities in the Republic of Ireland for a consideration of 950,000 ordinary shares of 1 Euro each in AA Ireland Limited, equivalent to £665,000. The activity had net liabilities, excluding taxation, at date of disposal of £4,672,000. Goodwill of £2,015,000 was also written off, giving rise to an overall profit on disposal of £3,322,000. In addition, there was a write-off of the deferred tax asset associated with the pension scheme of £1,775,000 (see note 9).

7 OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	2004 £'000	2003 £'000
Bank short term interest receivable	<u>309</u>	<u>438</u>

8 INTEREST PAYABLE AND SIMILAR CHARGES

	2004 £'000	Restated 2003 £'000
Interest payable to group undertakings	147	-
Other finance charges (note 16)	<u>92</u>	<u>135</u>
	<u>239</u>	<u>135</u>

9 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

The tax charge/(credit) comprises:

	2004 £'000	Restated 2003 £'000
UK corporation tax at 30% (2003: 30%)		
- current year	240	146
- prior year	-	(127)
Total UK tax	<u>240</u>	<u>19</u>
Foreign tax		
- current year	439	504
- prior year	-	79
Total foreign tax	<u>439</u>	<u>583</u>
Total current corporation tax	<u>679</u>	<u>602</u>
Deferred tax		
- current year	51	15
- prior year	(6)	-
- on pension scheme	18	(12)
- on disposal of pension scheme	<u>1,775</u>	<u>-</u>
Total deferred tax	<u>1,838</u>	<u>3</u>
Total tax on ordinary activities	<u>2,517</u>	<u>605</u>

AA CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

9 TAXATION ON PROFIT ON ORDINARY ACTIVITIES (continued)

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

	2004 £'000	Restated 2003 £'000
Profit on ordinary activities before tax	5,490	2,247
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2003: 30%)	1,647	674
Effects of:		
Expenses not deductible for tax purposes	34	142
Capital allowances in excess of depreciation	(5)	19
Other short term timing differences	-	(37)
Utilisation of overseas tax credits brought forward	-	(148)
Profit on sale of business	(997)	-
Prior year adjustment	-	(48)
Current tax charge for the year	679	602

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.

10 INTANGIBLE FIXED ASSETS – GOODWILL

	£'000
Cost	
At 1 January 2004	2,685
Disposal of business	(2,685)
At 31 December 2004	-
Amortisation	
At 1 January 2004	569
Charge for the year	101
Disposal of business	(670)
At 31 December 2004	-
Net book value	
At 31 December 2004	-
At 31 December 2003	2,116

The disposal of goodwill relates to the sale of the assets and liabilities of the company's activities in the Republic of Ireland. Further details are disclosed in note 6.

AA CORPORATION LIMITED
NOTES TO THE ACCOUNTS (continued)

11 TANGIBLE FIXED ASSETS

	Freehold	Land and buildings Leasehold		Equipment and motor Vehicles	Total
	£'000	Long £'000	Short £'000	£'000	£'000
Cost					
At 1 January 2004	433	796	13	3,488	4,730
Foreign exchange adjustment	(3)	(5)	-	(23)	(31)
Additions	-	-	-	150	150
Disposals	-	-	-	(107)	(107)
Disposal of business	(430)	(791)	(13)	(3,508)	(4,742)
At 31 December 2004	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Depreciation					
At 1 January 2004	315	758	13	2,388	3,474
Foreign exchange adjustment	(2)	(5)	-	(16)	(23)
Charge for the year	117	37	-	322	476
Disposals	-	-	-	(92)	(92)
Disposal of business	(430)	(790)	(13)	(2,602)	(3,835)
At 31 December 2004	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net book value					
At 31 December 2004	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2003	<u>118</u>	<u>38</u>	<u>-</u>	<u>1,100</u>	<u>1,256</u>

Further details of the disposal of the company's assets and liabilities are disclosed in note 6.

12 FIXED ASSET INVESTMENTS

	2004 £'000
Shares in subsidiary undertakings at cost	
At 1 January 2004	1,230,470
Additions	665
At 31 December 2004	<u>1,231,135</u>

On 29 September 2004, as part of a group reorganisation, the Company acquired 100% of the share capital of AA Ireland Limited (see note 6).

13 STOCKS

	2004 £'000	2003 £'000
Finished goods and goods for resale	<u>-</u>	<u>4</u>

AA CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

14 DEBTORS

	2004 £'000	2003 £'000
<i>Amounts falling due within one year</i>		
Amounts owed by group undertakings	6,295	1,603
Trade debtors	-	2,407
Other debtors	-	208
	<u>6,295</u>	<u>4,218</u>
<i>Amounts falling due after more than one year</i>		
Deferred corporation tax (note 17)	-	45
	<u>6,295</u>	<u>4,263</u>

15 CREDITORS: (amounts falling due within one year)

	2004 £'000	2003 £'000
Bank loans and overdrafts	-	546
Trade creditors	-	1,024
Insurance creditors	-	7,842
Amounts owed to group undertakings	134,766	133,572
Taxation and social security	518	913
Accruals and deferred income	-	2,429
	<u>135,284</u>	<u>146,326</u>

The amounts owed to group undertakings are unsecured and have no repayment terms. £8.4m of these amounts bears interest at LIBOR plus a margin. The remaining amount is not subject to interest.

16 PENSIONS AND SIMILAR OBLIGATIONS

Substantially all of the Company's employees were members of the AA Ireland Pension Scheme.

This defined benefit scheme is funded to cover pension liabilities in respect of service up to the balance sheet date and its assets are held in separate trustee administered funds. The scheme is subject to independent valuations every three years, on the basis of which the qualified actuary certifies the rate of employers' contributions which, together with specified contributions payable by the employees and proceeds from the schemes' assets, are expected to be sufficient to fund the benefits payable under the schemes. The liabilities under the pension schemes will be paid out over an extended period. The Company is contributing to the pension funds on the basis of actuarial advice as to the amounts required to meet these liabilities in full.

The latest full actuarial valuation was carried out as at 1 April 2002. This has been updated to 30 September 2004 for the purposes of meeting the requirements of FRS 17 at the date of disposal of the activities in the Republic of Ireland. Information for 2004 therefore relates to the nine months period up to the date of disposal. Investments have been valued, for this purpose, at market value.

AA CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

16 PENSIONS AND SIMILAR OBLIGATIONS (continued)

The main financial assumption used to calculate pension costs are set out below:

	30 September 2004 %	31 December 2003 %	31 December 2002 %
Rate of price inflation	2.25	2.25	2.50
Rate of increase in employee earnings	3.75	4.25	4.50
Rate of increase of pensions in payment	2.25	2.25	2.50
Rate of increase for deferred pensioners	2.25	2.25	2.50
Discount rate	5.15	5.50	5.50

The market value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rate of return were:

	Expected rate of return per annum 30 Sept 2004 %	Valuation 30 Sept 2004 £'000	Expected rate of return per annum 31 Dec 2003 %	Valuation 31 Dec 2003 £'000	Expected rate of return per annum 31 Dec 2002 %	Valuation 31 Dec 2002 £'000
Equities	7.5	8,529	8.0	8,489	8.8	6,565
Bonds	4.2	8,963	4.5	7,879	4.5	6,701
Other assets	2.8	60	3.0	116	3.0	(9)
Total fair value of assets		17,552		16,484		13,257
Present value of scheme's liabilities		(23,467)		(21,525)		(18,552)
Deficit in the scheme		(5,915)		(5,041)		(5,295)
Related deferred tax asset		1,775		1,512		1,589
Net pension liability		(4,140)		(3,529)		(3,706)

AA CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

16 PENSIONS AND SIMILAR OBLIGATIONS (continued)

Analysis of the amount charged to operating profit

	2004	2003
	£'000	£'000
Current service cost	<u>(589)</u>	<u>(763)</u>
	<u>(589)</u>	<u>(763)</u>

Analysis of the amount (charged)/credited to interest

	2004	2003
	£'000	£'000
Expected return on pension scheme assets	775	982
Interest on pension scheme liabilities	<u>(867)</u>	<u>(1,117)</u>
	<u>(92)</u>	<u>(135)</u>

Analysis of the actuarial gain/(loss) recognised in the statement of total recognised gains and losses:

	2004	2003
	£'000	£'000
Actual return less expected return on pension scheme assets	125	542
Experience losses arising on the scheme liabilities	(305)	(624)
Changes in assumptions underlying the present value of the scheme liabilities	<u>(785)</u>	<u>991</u>
	<u>(965)</u>	<u>909</u>

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Movement in scheme deficit:		
Deficit in scheme at 1 January	(5,041)	(5,295)
Movement in year:		
Exchange movement	32	(615)
Current service cost	(589)	(763)
Contributions paid	740	858
Other finance charges	(92)	(135)
Actuarial (loss)/gain	(965)	909
Disposal of business	5,915	-
Deficit in scheme at 31 December	<u>-</u>	<u>(5,041)</u>

AA CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

16 PENSIONS AND SIMILAR OBLIGATIONS (continued)

History of experience gains and losses

	2004	2003	2002
Difference between the expected and actual return on scheme assets			
Amount (£'000)	125	542	(3,491)
Percentage of scheme assets	0.70%	3.3%	26.30%
Experience loss on plan liabilities			
Amount (£'000)	(305)	(624)	(865)
Percentage of scheme liabilities at period end	1.30%	2.90%	4.70%
Total actuarial gain/(loss) recognised in the statement of total recognised gains and losses:			
Amount (£'000)	(965)	909	(5,832)
Percentage of scheme liabilities at period end	4.10%	4.20%	31.40%

17 DEFERED TAXATION

Deferred tax assets comprise the following:

	2004 £'000	2003 £'000
Accelerated capital allowances	<u>-</u>	<u>(45)</u>

18 CALLED UP SHARE CAPITAL

	2004 £'000	2003 £'000
Authorised:		
2,000,000,000 Ordinary shares of £1	2,000,000	2,000,000
200,000,000,000 Redeemable shares of 1p	<u>2,000,000</u>	<u>2,000,000</u>
	<u>4,000,000</u>	<u>4,000,000</u>
Allotted called up and fully paid:		
Ordinary shares	2004 £'000	2003 £'000
1,100,010,982 shares of £1	<u>1,100,011</u>	<u>1,100,011</u>

AA CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

19 PROFIT AND LOSS ACCOUNT

	2004	Restated 2003
	£'000	£'000
At 1 January, as previously stated	3,313	1,188
Prior year adjustment (note 21)	(3,430)	(3,764)
At 1 January, as restated	(117)	(2,576)
Profit for the financial year	2,973	1,642
Exchange adjustments net of deferred tax	(46)	181
Actuarial (loss)/gain on the pension scheme net of deferred tax	(675)	636
At 31 December	2,135	(117)

20 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2004	Restated 2003
	£'000	£'000
Shareholders' funds at 1 January, as previously stated	1,103,324	1,101,199
Prior year adjustment (note 21)	(3,430)	(3,764)
At 1 January, as restated	1,099,894	1,097,435
Profit for the financial year	2,973	1,642
Exchange adjustments net of deferred tax	(46)	181
Actuarial (loss)/gain on the pension scheme net of deferred tax	(675)	636
Shareholders' funds at 31 December	1,102,146	1,099,894

21 PRIOR YEAR ADJUSTMENT

The Company has adopted FRS 17, Retirement Benefits, in 2004 and the comparative figures have been restated accordingly. The effect was to increase operating profit by £173,000 (2003: £257,000), increase interest payable by £92,000 (2003: £135,000) and to increase the taxation charge for the year by £18,000 (2003: decrease of £12,000).

An increase in the actuarial loss, net of deferred tax, of £675,000 (2003: decrease of £636,000) and a decrease in the exchange loss, net of deferred tax, of £21,000 (2003: decrease of £436,000) has been recognised in the statement of total recognised gains and losses.

The total impact on the balance sheet is £nil (2003: increase in pension liability of £3,430,000, decrease in the profit and loss account of £3,430,000), following the disposal of the assets and liabilities of the activities in the Republic of Ireland. The resulting profit on disposal has increased by £5,796,000 due to the change in accounting policy with an additional taxation charge relating to the disposal of £1,775,000. The increase in profit on disposal of £5,796,000 is included within the £3,322,000 profit on disposal as presented on the face of the profit and loss account.

AA CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

22 PRINCIPAL UNDERTAKINGS AS AT 31 DECEMBER 2004

<u>Subsidiary undertakings</u>	<u>Country of incorporation</u>	<u>% holdings in ordinary shares</u>	<u>Principal activity</u>
The Automobile Association Limited (1)	Jersey	100	Roadside services
AA The Driving School Agency Limited	England	100	Franchise operation
A.A. Reinsurance Company (Guernsey) Limited	Guernsey	100	Insurance services
AA Financial Services Limited	England	100	Ceased trading
AA Underwriting Limited	England	100	Ceased trading
Automobile Association Developments Limited (1)	England	100	Roadside and financial services
AA Road Services Limited	England	100	Roadside services (ceased trading)
Automobile Association Holdings Limited (4)	England	100	Holding company
Automobile Association Insurance Services Holdings Limited	England	100	Holding company
Automobile Association Insurance Services Limited (1)	England	100	Financial services
Automobile Association Protection and Investment Planning Limited	England	100	Financial services (ceased trading)
Automobile Association Underwriting Services Limited	England	100	Roadside and financial services
AA Ireland Limited (1)	Ireland	100	Roadside and financial services
Fanum Guernsey Limited (formerly Fanum Reinsurance Limited)	Guernsey	100	Insurance services (ceased trading)
AA Buyacar Limited	England	100	Ceased trading
Volkswagen Assistance Limited	England	100	Roadside Services
<u>Joint Ventures</u>			
AA Financial Services (2)	England	50	Financial services
Automobile Association Personal Finance Limited (formerly Centrica Personal Finance Limited)	England	50	Financial services
Motorfile Limited (3)	England	50	Used car data checking
<u>Associates</u>			
A.C.T.A. SA	France	20	Roadside services
Europe Net SA	Luxembourg	20	Roadside services
ARC Transistance SA	Belgium	20	Roadside services

(1) These principal undertakings are directly held by the Company; the remaining principal undertakings are indirectly held.

(2) AA Financial Services is unincorporated. Its principal place of business is Capital House, Queen's Park Road, Handbridge, Chester, CH88 3AN.

(3) Motorfile Limited has a financial year end of 31 March.

(4) The holding in Automobile Association Holdings Limited also includes 100% of the company's special shares.

(5) The percentage voting rights are the same as the percentage holdings in ordinary shares.

AA CORPORATION LIMITED
NOTES TO THE ACCOUNTS (continued)

23 COMMITMENTS

Operating Leases

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

	Land and Buildings	
	2004	2003
	£'000	£'000
Second to fifth year from balance sheet date	-	7
After five years	-	291
	<u>-</u>	<u>298</u>

24 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. Other transactions with related parties during the year comprised:

Related party	Type of transaction	2004	2003
		£'000	£'000
ARC Transistance SA	Vehicle registration fees and breakdown costs	59	50

25 PARENT UNDERTAKING

The Company is a wholly owned subsidiary of AA Acquisition Co 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 10 Upper Bank Street, London E14 5JJ.

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

As the Company has net current liabilities at the 31 December 2004, a group undertaking has committed to provide continued support to enable the Company to continue to meet its current liabilities as they fall due.