AA CORPORATION LIMITED

ANNUAL REPORT AND ACCOUNTS

31 DECEMBER 2002

Registered number: 3797747

AA CORPORATION LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2002

1 The directors present their report and audited accounts of AA Corporation Limited (the "Company") for the year ended 31December 2002.

2 **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.

3 **BUSINESS REVIEW**

The profit and loss account for the year is set out on page 7. The directors consider that the results for the year have been satisfactory and the directors believe that the level of business will continue into the future.

4 **DIVIDENDS**

The directors do not recommend the payment of a dividend for the year (2001: £nil).

5 **DIRECTORS**

The directors of the Company were as follows:

Grant Dawson
Mark Clare
Phillip Bentley - appointed 14 March 2002

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

At no time did any director holding office at 31 December 2002 have any interest in the shares of the Company, or any other company within the Centrica plc group, except for interests in and options over, the shares and interests of the ultimate parent company, Centrica plc.

Details of the interests of Phillip Bentley and Mark Clare in the shares and options over shares in the ultimate parent company, Centrica plc, are shown in the Centrica plc Annual Report for 2002.

Details of the interests of Grant Dawson in the shares and options over shares in the ultimate parent company, Centrica plc, are shown in the 2002 Annual Report of the intermediate holding company GB Gas Holdings Limited.

The middle market price of Centrica plc ordinary shares on the last day of trading of 2002 (31 December) was 171 pence. The range during the year was 239 pence (high) and 150 pence (low).

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

AA CORPORATION LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2002 (continued)

7 CREDITOR PAYMENT POLICY

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

8 EMPLOYMENT POLICIES

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

The Group continues to support Investors in People.

9 EMPLOYEE COMMUNICATIONS

The Group is committed to effective communications, which it maintains through formal and informal briefings, Company magazines, videos, audio tape and electronic media. There are regular formal communications between representatives from the company and trade unions. The Group has procedures for the timely and accurate communication of financial results and other significant business issues to its employees. Centrica operates an annual company-wide employee satisfaction survey.

10 DIRECTORS' AND OFFICERS' LIABILITY

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

11 AUDITORS

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 31 March 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors.

BY ORDER OF THE BOARD

I. Ritchie
FOR AND ON BEHALF OF
CENTRICA SECRETARIES LIMITED
SECRETARY
3 July 2003

Registered Office:
Millstream
Maidenhead Road
Windsor
Berkshire SL4 5GD

AA CORPORATION LIMITED

DIRECTORS' RESPONSIBIILTIES FOR PREPARING THE FINANCIAL STATEMENTS

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

The directors consider that in preparing the financial statements on pages 7 to 21, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and all applicable accounting standards have been followed. The financial statements have been prepared on a going concern basis.

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AA CORPORATION LIMITED

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

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 evaluated the overall adequacy of the presentation of information in the financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AA CORPORATION LIMITED (continued)

OPINION

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
CHARTERED ACCOUNTANTS AND REGISTERED AUDITORS
SOUTHAMPTON
3 July 2003

AA CORPORATION LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2002

	Notes	2002	2001
		£'000	£'000
TURNOVER	2	**14,966**	12,068
Operating expenditure		**(14,138)**	(11,777)
OPERATING PROFIT	3	**828**	291
Other interest receivable and similar income	4	**481**	461
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,309	752
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	7	**(645)**	(126)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR		664	626

All items dealt with in arriving at the profit for the year 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.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 2002

	2002	2001
	£'000	£'000
Profit for the financial year	**664**	626
Exchange adjustments (note 17)	**114**	(65)
TOTAL RECOGNISED GAINS FOR THE FINANCIAL YEAR	778	561

The notes on pages 9 to 21 form part of these financial statements.

AA CORPORATION LIMITED

BALANCE SHEET AT 31 DECEMBER 2002

	Note	2002	2001
		£'000	£'000
FIXED ASSETS			
Intangible assets	8	**2,250**	2,384
Tangible assets	9	**1,460**	1,922
Investments in group undertakings	10	**1,096,870**	1,096,870
		1,100,580	1,101,176
CURRENT ASSETS			
Stocks	11	**5**	19
Debtors	12	**3,550**	2,296
Investments – short term deposits		**13,836**	11,790
Cash at bank and in hand		**414**	313
		17,805	14,418
CREDITORS: (amounts falling due within one year)	13	**(12,431)**	(11,704)
NET CURRENT ASSETS		**5,374**	2,714
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,105,954**	1,103,890
ACCRUALS AND DEFERRED INCOME			
Subscriptions in advance		**(4,755)**	(3,469)
NET ASSETS		**1,101,199**	1,100,421
CAPITAL AND RESERVES			
Called up share capital	16	**1,100,011**	1,100,011
Profit and loss account	17	**1,188**	410
EQUITY SHAREHOLDERS' FUNDS	18	**1,101,199**	1,100,421

The financial statements on pages 7 to 21 were approved by the board of directors on 3 July 2003 and were signed on its behalf by:

DIRECTOR P.K. BENTLEY

The notes on pages 9 to 21 form part of these financial statements.

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. In accordance with the transitional arrangements of FRS 17, Retirement Benefits, additional disclosures are contained in the notes to the financial statements.

Basis of accounting

The Company is exempt from the requirement to prepare consolidated accounts as it is a wholly owned subsidiary of Centrica plc, 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 cost, 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%

The depreciation rates for freehold and long leasehold properties were previously both at 2% per annum and have been accelerated to reflect changes in usage of certain properties. The financial impact of this has been an additional charge to the profit and loss account of £220,000.

1 ACCOUNTING POLICIES (continued)

Retirement benefits

Retirement benefits are accounted for in accordance with SSAP 24, Pension Costs. The cost of providing retirement pensions and related benefits is charged to the profit and loss account over the periods benefiting from the employees' services. The difference between the charge to the profit and loss account and the contributions paid to the pension schemes is included as an asset or liability in the balance sheet. The regular pension cost, variations from the regular pension cost and interest are all charged within employee costs, and the straight-line method is applied for amortising surpluses and interest.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods that are different from those in which they are recognised in the financial statements.

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

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

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

Stocks

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

1 ACCOUNTING POLICIES (continued)

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:

	2002 £'000	2001 £'000
Roadside assistance	**9,795**	7,988
Insurance brokerage	**5,072**	3,912
Other	**99**	168
	14,966	12,068

The Company's activities take place principally in the Republic of Ireland. A full segmental analysis of the Centrica Group is included in the Centrica plc Annual Report and Accounts, and accordingly, is not presented above as permitted under SSAP 25.

3 OPERATING PROFIT

The operating profit is stated after charging:

	2002 £'000	2001 £'000
Depreciation of tangible fixed assets	**776**	599
Amortisation of goodwill	**134**	134
Auditors' remuneration - audit fees	**16**	-

In 2001, the audit fees for the Company were paid by a fellow subsidiary company.

4 OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	2002 £'000	2001 £'000
Bank short term interest receivable	481	461

5 DIRECTORS' EMOLUMENTS

None of the directors during the year received emoluments in respect of their services to the company. Mark Clare and Phillip Bentley are directors of the ultimate holding company, Centrica plc, and their total emoluments are disclosed in the accounts of that company. Grant Dawson as 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 the group companies.

6 EMPLOYEES

The average number of employees during the year was 300, analysed as follows:

	2002 Number	2001 Number
Roadside assistance	144	140
Insurance brokerage	129	131
Other	27	30
	300	301

Staff costs during the year amounted to:	2002 £'000	2001 £'000
Wages and salaries	5,694	5,068
Social security costs	556	499
Other pension costs	721	67
	6,971	5,634

7 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

The tax charge comprises:	2002 £'000	2001 £'000
UK corporation tax at 30% (2001: 30%)		
- current year	219	-
- prior year	35	-
	254	-
Foreign tax		
- current year	391	255
- prior year	-	(168)
Total current tax	645	87
Deferred tax – current year	-	39
Total tax on ordinary activities	645	126

7 **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:

	2002	2001
	£'000	£'000
Profit on ordinary activities before tax	**1,309**	752
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2001: 30%)	**393**	226
Effects of:		
Expenses not deductible for tax purposes	**178**	41
Depreciation in excess of capital allowances	**6**	39
Group relief	**-**	(110)
Overseas tax unrelieved	**33**	116
Utilisation of losses	**-**	(57)
Prior year adjustment	**35**	(168)
Current tax charge for the year	**645**	87

8 **INTANGIBLE FIXED ASSETS – GOODWILL**

	£'000
Cost	
At 1 January and 31 December 2002	**2,685**
Amortisation	
At 1 January 2002	301
Charge for the year	134
At 31 December 2002	**435**
Net Book Value	
At 31 December 2002	**2,250**
At 31 December 2001	2,384

9 TANGIBLE FIXED ASSETS

	Land and buildings			Equipment	
	Freehold	Leasehold		and motor	
		Long	Short	Vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2002	305	607	11	2,120	3,043
Foreign exchange adjustment	83	105	1	531	720
Additions	-	-	-	271	271
Disposals	-	-	-	(130)	(130)
At 31 December 2002	**388**	**712**	**12**	**2,792**	**3,904**
Depreciation					
At 1 January 2002	40	141	5	935	1,121
Foreign exchange adjustment	71	80	6	500	657
Charge for the year	55	266	1	454	776
Disposals	-	-	-	(110)	(110)
At 31 December 2002	**166**	**487**	**12**	**1,779**	**2,444**
Net book value					
At 31 December 2002	**222**	**225**	**-**	**1,013**	**1,460**
At 31 December 2001	265	466	6	1,185	1,922

10 FIXED ASSET INVESTMENTS

	2002	2001
	£'000	£'000
Shares in subsidiary undertakings at cost	1,096,870	1,096,870

11 STOCKS

	2002	2001
	£'000	£'000
Finished goods and goods for resale	5	19

12 DEBTORS: (amounts falling due within one year)

	2002	2001
	£'000	£'000
Amounts owed by group undertakings	866	-
Trade debtors	2,396	1,834
Other debtors	228	402
	3,490	2,236
(Amounts falling due after more than one year)		
Deferred corporation tax	60	60
	3,550	2,296

13 CREDITORS: (amounts falling due within one year)

	2002	2001
	£'000	£'000
Bank loans and overdrafts	**1,537**	1,851
Trade creditors	**569**	373
Insurance creditors	**7,394**	5,510
Amounts owed to group undertakings	**-**	2,114
Taxation and social security	**838**	445
Accruals and deferred income	**2,093**	1,411
	12,431	11,704

14 PENSIONS AND SIMILAR OBLIGATIONS

At 31 December 2002, substantially all of the Company's employees were members of the AA Ireland Pension Scheme, which commenced from 1 April 2002, when these employees transferred from the AA Staff Pension Scheme and the Centrica Management Pension Scheme.

These defined benefit schemes are funded to cover pension liabilities in respect of service up to the balance sheet date and their assets are held in separate trustee administered funds. They are 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. For 2002, this actuarial advice was based on triennial funding valuations of the AA Staff Pension Scheme and Centrica Management Pension Schemes, the last of which was at 31 March 2001. Further details of these valuations can be found in the annual report of Centrica plc. The AA Ireland Pension Scheme has not had a full SSAP24 valuation as it was only established in April 2002, the directors believe that the valuation of the AA Staff Pension Scheme and Centrica Management Pension Scheme remains appropriate for determining the SSAP24 accounting treatment.

The aggregate contributions paid by the company to the schemes during the year were £584,000. At 31 December 2002 the pension prepayment amounted to £57,000 (2001: £204,000) and has been included within other debtors.

14 PENSIONS AND SIMILAR OBLIGATIONS (continued)

Additional disclosures regarding the AA Ireland Pension Scheme are required under the transitional provisions of FRS 17 Retirement Benefits. The disclosures provide information which will be necessary for the full implementation of FRS 17 in due course.

The latest full actuarial valuation was carried out as at 1 April 2002. This has been updated to 31 December 2002 for the purposes of meeting the requirements of FRS 17. Investments have been valued, for this purpose, at market value.

	31 December 2002	1 April 2002
The major assumptions used for the actuarial valuation were:	**%**	%
Rate of increase in employee earnings	**4.5**	4.5
Rate of increase in pensions in payment	**2.5**	2.5
Discount rate	**6.0**	5.5
Inflation assumption	**2.5**	2.5

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

	Expected rate of return per annum 31 December 2002	**Valuation 31 December 2002**	Expected rate of return per annum 1 April 2002	Valuation 1 April 2002
	%	**£'000**	%	£'000
Equities	**8.8**	**6,565**	7.4	8,014
Bonds	**4.5**	**6,701**	5.5	8,014
Other assets	**3.0**	**(9)**	-	-
Total fair value of assets	**6.6**	**13,257**	6.5	16,028
Present value of scheme's liabilities		**(18,551)**		(15,620)
(Deficit)/surplus in the scheme		**(5,295)**		408
Related deferred tax asset/(liability)		**1,589**		(122)
Net pension (liability)/asset		**(3,706)**		286

14 **PENSIONS AND SIMILAR OBLIGATIONS (continued)**

Under SSAP 24 the balance sheet includes a prepayment of £57,000 at 31 December 2002. Had FRS 17 been implemented in full at that date the net assets of the company would have been reduced by £3,763,000 and the net charge for pension costs in the profit and loss account for the nine months to 31 December 2002 would have decreased by £129,000 compared with that under SSAP 24, as set out below:

For the nine months ended 31 December 2002	FRS 17 £'000	SSAP 24 £'000	Decrease £'000
Amount charged to operating profit	403	521	(118)
Amount credited to net finance income	(85)	-	(85)
Net charge to profit and loss account	318	521	(203)

At 1 April 2002 under SSAP 24, the balance sheet included a prepayment of £161,000. Had FRS 17 been implemented in full at that date, the net assets of the company would have increased by £125,000. Prior to 1 April 2002, the employees were members of either the AA Staff Pension Scheme or the Centrica Management Pension Scheme. For these schemes it was not possible, on a reasonable and consistent basis, to identify the company's share of the underlying assets and liabilities and, therefore, as allowed within FRS 17, these schemes have been treated, for disclosure purposes, as defined contribution schemes. Consequently, prior to 1 April 2002, it is not possible to compare the net charge for pension costs in the profit and loss account under FRS 17 with that under SSAP 24.

The latest actuarial valuations of the AA Staff Pensions Scheme and the Centrica Management Pension Scheme prepared for the purposes of making the transitional disclosures in accordance with FRS 17 in the consolidated financial statements of Centrica plc, show a total deficit of £296 million (£207 million net of deferred tax). Further details of these valuations can be found in the annual report of Centrica plc.

Specific information relating to the AA Ireland Pension Scheme for the nine months to 31 December 2002 is as follows:

Analysis of the amount that would have been charged to operating profit under FRS 17:

Current service cost (£'000)	403
Past service cost (£'000)	-

Analysis of the amount that would have been credited to net finance income under FRS 17:

Expected return on pension scheme assets (£'000)	780
Interest on pension scheme liabilities (£'000)	(695)

14 **PENSIONS AND SIMILAR OBLIGATIONS (continued)**

Analysis of the actuarial gain/(loss) that would have been recognised in the statement of total recognised gains and losses:	**£'000**
Actual return less expected return on pension scheme assets	(3,491)
Experience gains and losses arising on the scheme liabilities	(865)
Changes in assumptions underlying the present value of the scheme liabilities	(1,476)
Actuarial loss to be recognised in the statement of total recognised gains and losses before adjustment for tax	(5,832)

History of experience gains and losses for the nine months ended 31 December 2002

Difference between the expected and actual return on scheme assets:	
Amount (£'000)	(3,491)
Percentage of scheme assets	26.3%
Experience gains and losses on scheme liabilities:	
Amount (£'000)	(865)
Percentage of the present value of scheme liabilities	4.7%
Total actuarial loss recognised in the statement of total recognised gains and losses:	
Amount (£'000)	(5,832)
Percentage of the present value of scheme liabilities	31.4%

The movement in surplus/(deficit) for the nine months to 31 December 2002 under FRS 17 would have been:	**£'000**
Surplus in scheme at 1 April 2002	408
Movement in the nine months to 31 December 2002:	
Current service cost	(403)
Employer contributions	447
Other finance income	85
Actuarial loss	(5,832)
Deficit in scheme at end of year	(5,295)

As a result of the deficit arising within the AA Ireland Pension Scheme, it was agreed with the trustees that contributions to the pension scheme would increase with effect from 1 January 2003.

15 **DEFERRED TAXATION**

Deferred tax assets comprise the following:

	2002	2001
	£'000	£'000
Accelerated capital allowances	**(60)**	(60)

As required by FRS 19, deferred tax assets are only recognised when there is persuasive and reliable evidence that the assets can be realised. Detailed operating plans covering two years from the balance sheet date are used for deferred tax asset recognition purposes. Potential deferred tax asset utilisation falling outside that planning horizon is not currently recognised on the balance sheet. As required by FRS 19, deferred tax asset recognition will be regularly reassessed.

16 CALLED UP SHARE CAPITAL

	2002 £'000	2001 £'000
Authorised:		
2,000,000,000 Ordinary shares of £1	**2,000,000**	2,000,000
200,000,000,000 Redeemable shares of 1p	**2,000,000**	2,000,000
	4,000,000	4,000,000

	2002 £'000	2001 £'000
Allotted called up and fully paid:		
Ordinary shares		
1,100,010,982 shares of £1	**1,100,011**	1,100,011

17 PROFIT AND LOSS ACCOUNT

	2002 £'000	2001 £'000
Retained profit/(deficit) at 1 January	**410**	(151)
Profit for the financial year	**664**	626
Exchange gains/(losses) arising on the translation of overseas interests	**114**	(65)
Retained profit at 31 December	**1,188**	410

18 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2002 £'000	2001 £'000
Shareholders' funds at 1 January	**1,100,421**	1,099,860
Profit for the financial year	**664**	626
Exchange adjustments	**114**	(65)
Shareholders' funds at 31 December	**1,101,199**	1,100,421

19 **PRINCIPAL UNDERTAKINGS AS AT 31 DECEMBER 2002**

Subsidiary undertakings	Country of incorporation	% holdings in ordinary shares	Principal activity
The Automobile Association Limited (1)	Jersey	100	Roadside services
AA The Driving School Agency Limited	England	100	Franchise operation
AA Reinsurance Company (Guernsey) Limited	Guernsey	100	Insurance services
AA Stars Sarl	France	100	Roadside services (ceased trading in 2002)
AA Financial Services Limited	England	100	Financial services (ceased trading in 2002)
AA Underwriting Limited	England	100	Insurance services (ceased trading)
Automobile Association Developments Limited	England	100	Roadside and financial services
AA Road Services Limited	England	100	Roadside services
Automobile Association Holdings Limited (4)	England	100	Holding company
Automobile Association Insurance Services Holdings Limited	England	100	Holding company
Automobile Association Insurance Services Limited	England	100	Financial services
Automobile Association Protection and Investment Planning Limited	England	100	Financial services
Automobile Association Underwriting Services Limited	England	100	Roadside and financial services
Fanum Reinsurance Limited	Guernsey	100	Insurance services
Goldfish Financial Services Limited	England	100	Business development services
AA Buyacar Limited	England	100	Vehicle Sourcing and finance (ceased trading in 2002)
Joint Ventures			
AA Financial Services (2)	England	50	Financial services
Centrica Personal Finance Limited	England	50	Financial services
Motorfile Limited (3)	England	50	Used car data checking
Associates			
A.C.T.A. SA	France	20	Roadside services
Europe Net SA	Luxembourg	20	Roadside services
ARC Transistance SA	Belgium	20	Roadside services

(1) This principal undertaking is 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.

20 **RELATED PARTY TRANSACTIONS**

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

21 **ULTIMATE OWNERSHIP**

The Company is a wholly owned subsidiary of GB Gas Holdings 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 accounts, is Centrica plc, whose principal place of business is situated at Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD. Copies of the Annual Report and Accounts of Centrica plc are available from the Company Secretary at this address.