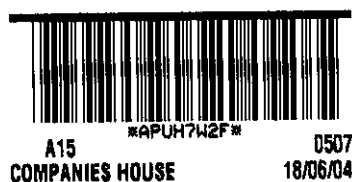


***AUTOMOBILE ASSOCIATION
INSURANCE SERVICES LIMITED
ANNUAL REPORT AND ACCOUNTS
31 DECEMBER 2003***

Registered number: 2414212



AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2003

- 1 The directors present their report and audited accounts of Automobile Association Insurance Services Limited (the "Company") for the year ended 31 December 2003.

2 **REVIEW OF ACTIVITIES AND FUTURE DEVELOPMENTS**

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

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

Personal lines insurance remains an intensely competitive market, and the recent stabilisation in motor premiums has decreased the level of churn within the market putting downward pressures on new business rates. In response to this the business has brought new insurers onto the panel and continues to promote internet usage.

In 2004 the business will focus on growing and developing our core products as well as improving our competitive position through adding additional insurers to our panel.

The Company is preparing for authorisation by the Financial Services Authority following the implementation of the Insurance Mediation Directive into English law from January 2005. The directors currently believe that the Company will be in a state of readiness to comply with these requirements by the end of 2004.

3 **DIVIDENDS**

During the year, the directors recommended and paid a dividend of 26.32 pence per share (2002: £nil).

4 **DIRECTORS**

The directors of the Company were as follows:

Andrew Briscoe	-	resigned 31 December 2003
Nigel Clark		
Roger Wood		
Thomas Murphy	-	appointed 1 January 2004
Clare Salmon	-	appointed 1 January 2004
Paul Woolf	-	appointed 1 January 2004

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2003 (continued)

5 DIRECTORS' INTERESTS

At no time did any director holding office at 31 December 2003 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, as set out below.

Details of the interests of Roger Wood in the shares and options over shares in the ultimate parent company Centrica plc, are shown in the Centrica plc Annual Report for 2003.

Centrica Executive Share Option Scheme

	As at 31 December 2003	Exercised during year	Granted During year	As at 31 December 2002
Nigel Clark	100,272	-	100,272	-

Under the terms of the scheme a grant of options was made on 24 March 2003 at an option price of 146.6 pence per share.

Long Term Incentive Scheme

	As at 31 December 2003	Exercised during year	Granted during year	As at 31 December 2002
Nigel Clark	150,856	-	50,864	99,992

Total allocations as at 31 December 2003 shown above include allocations of shares that are subject to performance conditions.

A conditional allocation of shares was made under the terms of the scheme on 1 April 2003 at a base price of 179.4 pence per share.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2003 (continued)

5 DIRECTORS' INTERESTS (continued)

Details of the above listed schemes can be found in the 2003 Annual Report for Centrica plc, copies of which can be obtained from the Company Secretary at the address given in note 22 to these accounts.

The middle market price of Centrica plc ordinary share on the last day of trading of 2003 (31 December) was 211 pence. The range during the year was 212.75 pence (high) and 131.5 pence (low).

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

6 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.

7 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.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2003 (continued)

8 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.

9 DIRECTORS' AND OFFICERS' LIABILITY

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

10 AUDITORS

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

BY ORDER OF THE BOARD



PAUL WOOLF
DIRECTOR

27 MAY 2004

Registered Office:
Millstream
Maidenhead Road
Windsor
Berkshire SL4 5GD

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 8 to 19, 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 AUTOMOBILE ASSOCIATION INSURANCE SERVICES 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 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.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED (continued)**

OPINION

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 December 2003 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

LONDON, 27 May 2004

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003 £'000	2002 £'000
TURNOVER	2	137,351	135,631
Operating expenditure, before exceptional items		(119,363)	(123,262)
Exceptional operating income	3	<u>-</u>	<u>4,392</u>
Total operating expenditure		(119,363)	(118,870)
Operating profit		<u>17,988</u>	<u>16,761</u>
Other interest receivable and similar income	4	3,499	3,237
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	<u>21,487</u>	<u>19,998</u>
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	8	<u>3,254</u>	<u>921</u>
PROFIT FOR THE FINANCIAL YEAR		24,741	20,919
DIVIDENDS	9	<u>(5,001)</u>	<u>-</u>
RETAINED PROFIT FOR THE YEAR		19,740	20,919
RETAINED PROFIT AT 1 JANUARY		85,614	64,695
RETAINED PROFIT AT 31 DECEMBER		<u>105,354</u>	<u>85,614</u>

All items dealt with in arriving at the results before taxation for both 2003 and 2002 relate to continuing operations.

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

The Company has no recognised gains or losses in 2003 and 2002, other than the results for the financial years reported above and, therefore, no separate statement of total recognised gains or losses is presented.

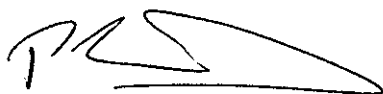
The notes on pages 10 to 19 form part of these financial statements.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

BALANCE SHEET AT 31 DECEMBER 2003

	Notes	2003 £'000	2002 £'000
FIXED ASSETS			
Tangible assets	10	12,616	13,992
Other investments other than loans	11	452	452
		<u>13,068</u>	<u>14,444</u>
CURRENT ASSETS			
Debtors	12	156,391	142,384
Investments	13	65,310	52,510
Cash at bank and in hand		38,535	151,094
		<u>260,236</u>	<u>345,988</u>
CREDITORS (amounts falling due within one year)	14	<u>(147,813)</u>	<u>(254,254)</u>
NET CURRENT ASSETS		<u>112,423</u>	<u>91,734</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		125,491	106,178
PROVISIONS FOR LIABILITIES AND CHARGES	15	<u>(1,137)</u>	<u>(1,564)</u>
NET ASSETS		<u>124,354</u>	<u>104,614</u>
CAPITAL AND RESERVES			
Called up share capital	18	19,000	19,000
Profit and loss account		105,354	85,614
EQUITY SHAREHOLDERS' FUNDS	19	<u>124,354</u>	<u>104,614</u>

The financial statements on pages 8 to 19 were approved by the board of directors on 27 MAY 2004 and were signed on its behalf by:



PAUL WOOLF
DIRECTOR

The notes on pages 10 to 19 form part of these financial statements

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

A summary of accounting policies is set out below.

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. The Company has agreed with some underwriters that additional commission may be receivable dependent upon certain underwriting criteria. The credit for these additional amounts is taken when the value is confirmed by the underwriter.

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

Tangible fixed assets

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

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

Operating leases

Rentals under operating leases are charged to the profit and loss account as incurred. However, in relation to unoccupied properties, where a decision has been made prior to the year end to vacate, provision is made for future property costs up to the estimated date of final disposal.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE ACCOUNTS (continued)

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 shown 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.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE ACCOUNTS (continued)

1 ACCOUNTING POLICIES (continued)

Insurance intermediary assets and liabilities

The Company acts as an agent in the insurance of clients' risks and, generally, is not liable as a principal for premiums due to underwriters nor for claims payable to clients. Notwithstanding the Company's legal relationship with clients and underwriters and since, in practice, premiums and claims monies are usually accounted for by insurance intermediaries, it has followed generally accepted accounting practice by showing cash, debtors and creditors relating to insurance business as assets and liabilities of the Company itself.

Investments

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

Advertising, promotion and mailing campaign costs

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

Cash flow statement

The Company is a wholly owned subsidiary of Centrica plc, whose consolidated financial statements are publicly available. The Company is, therefore, exempt from the requirement to prepare a cash flow statement under FRS 1 (Revised).

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 £437 million (2002: £442 million).

3 EXCEPTIONAL OPERATING EXPENDITURE

The exceptional operating income in 2002 relates to a release of provisions previously established for empty properties.

4 OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	2003	2002
	£'000	£'000
Bank interest receivable	<u>3,499</u>	<u>3,237</u>

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE ACCOUNTS (continued)

5 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

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

	2003 £'000	2002 £'000
Depreciation of tangible fixed assets	1,543	1,683
Profit on disposal of fixed assets	-	(6)
Fees payable to the auditors:		
Audit	60	50
Operating lease rentals:		
Property	775	739
Motor vehicles	90	-

6 DIRECTORS EMOLUMENTS

	2003 £'000	2002 £'000
Aggregate emoluments	262	215

All of the directors were directors of a number of companies within the Centrica group and the emoluments shown relate only to those directors whose remuneration was wholly in respect of their services to the Company.

Retirement benefits are accruing to all of the directors under defined benefit schemes.

The emoluments of the highest paid director were £261,982 (2002: £214,512). The accrued annual pension of the highest paid director was £17,768 (2002: £13,651).

7 EMPLOYEES

The average number of persons employed by the Company, including executive directors, during the year was 2,091 (2002: 1,956).

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

	2003 £'000	2002 £'000
Wages and salaries	34,704	30,113
Social security costs	2,138	1,741
Other pension costs	212	236
	<u>37,054</u>	<u>32,090</u>

Further details of the valuation of these schemes are contained in note 16 and in the financial statements of Centrica plc.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE ACCOUNTS (continued)

8 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

The tax charge comprises:	2003	2002
	£'000	£'000
Corporation tax at 30% (2002: 30%)		
Current year	-	-
Prior year	-	(921)
Deferred tax		
Current year	(2,905)	-
Prior year	(349)	-
	<u>(3,254)</u>	<u>(921)</u>
Total tax credit on profit on ordinary activities	<u>(3,254)</u>	<u>(921)</u>

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:

	2003	2002
	£'000	£'000
Profit on ordinary activities before tax	<u>21,487</u>	<u>19,998</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2002: 30%)	6,446	5,999
Effects of:		
Expenses not deductible for tax purposes	82	(31)
Depreciation in excess of capital allowances	103	154
Other timing differences	(368)	(1,444)
Group relief	(6,263)	(4,678)
Adjustments to tax charge in respect of previous years	-	(921)
Current tax credit for the year	<u>-</u>	<u>(921)</u>

9 DIVIDENDS

	2003	2002
	£'000	£'000
Interim dividends paid	<u>5,001</u>	<u>-</u>

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE ACCOUNTS (continued)

10 TANGIBLE FIXED ASSETS

	Land and buildings		Equipment and motor vehicles	Total
	Freehold £'000	Short leasehold £'000	£'000	£'000
Cost				
At 1 January 2003	13,962	5,204	10,307	29,473
Additions	-	-	270	270
Reclassifications	-	(815)	815	-
Intra-group transfers	-	-	(124)	(124)
Disposals	-	-	(4,184)	(4,184)
At 31 December 2003	13,962	4,389	7,084	25,435
Depreciation				
At 1 January 2003	2,843	4,758	7,880	15,481
Charge for the year	266	1	1,276	1,543
Reclassifications	-	(394)	394	-
Intra-group transfers	-	-	(23)	(23)
Disposals	-	-	(4,182)	(4,182)
At 31 December 2003	3,109	4,365	5,345	12,819
Net book value				
At 31 December 2003	10,853	24	1,739	12,616
At 31 December 2002	11,119	446	2,427	13,992

11 OTHER INVESTMENTS OTHER THAN LOANS

	2003 £'000	2002 £'000
Cash deposits	452	452

12 DEBTORS (amounts falling due within one year)

	2003 £'000	2002 £'000
Trade debtors	132,179	135,888
Amounts owed by group undertakings	18,987	4,831
Other debtors	1,544	1,551
Prepayments and accrued income	427	114
	153,137	142,384
<i>Amounts receivable after more than one year</i>		
Deferred corporation tax (see note 17)	3,254	-
	156,391	142,384

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE ACCOUNTS (continued)

13 INVESTMENTS

	2003	2002
	£'000	£'000
Short-term deposits	<u>65,310</u>	<u>52,510</u>

14 CREDITORS (amounts falling due within one year)

	2003	2002
	£'000	£'000
Bank loans and overdrafts	1,405	47,767
Insurance creditors	43,915	46,016
Amounts owed to group undertakings	88,732	145,952
Taxation and social security	3,484	5,465
Other creditors	3,322	3,763
Accruals and deferred income	6,955	5,291
	<u>147,813</u>	<u>254,254</u>

15 PROVISIONS FOR LIABILITIES AND CHARGES

	Empty property provisions £'000	Other £'000	Total £'000
At 1 January 2003	1,515	49	1,564
Utilised in the year	(275)	(49)	(324)
Released in the year	(103)	-	(103)
At 31 December 2003	<u>1,137</u>	<u>-</u>	<u>1,137</u>

The property provisions represent costs relating to properties surplus to the Company's requirements following the closure of the network of high street outlets. The majority of these sums are expected to be spent during the next few years.

The other provision relates to costs associated with the Company's property in Cardiff and was fully utilised during 2003.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE ACCOUNTS (continued)

16 PENSIONS AND SIMILAR OBLIGATIONS

The majority of the Company's employees were members of either the Centrica Staff Pension Scheme, the AA Staff Pension Scheme or the Centrica Management Scheme.

These defined benefit schemes are funded to cover future pension liabilities in respect of service up to the balance sheet date and their assets are held in separate trustee administered funds. However, it is not possible on a reasonable and consistent basis to identify the Company's share of the underlying assets and liabilities within these schemes, and therefore, as allowed within FRS 17, these schemes have been treated for disclosure purposes as defined contribution schemes. The aggregate contributions to the schemes for the Company were paid to the schemes by The Automobile Association Limited, which holds the provision for pension in its accounts. The latest actuarial valuation of the schemes, 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 £790 million (£551 million net of deferred tax). Further details of their valuation can be found in the annual report of Centrica plc.

The liabilities under the pension schemes will be paid out over an extended period. The contributions to the pension fund are being made on the basis of actuarial advice as to the amounts required to meet these liabilities in full. This actuarial advice is based on triennial funding valuations, the last of which was at 31 March 2001. Since then, the Company has continued to take actuarial advice and has increased its contribution levels on 1 January 2002 and on 1 September 2003.

The Company has a commitment to provide post-retirement private medical insurance cover for certain current and past employees. Details relating to the latest actuarial valuations of these arrangements are also contained in the financial statements of Centrica plc. Provisions for these obligations are held centrally by The Automobile Association Limited.

17 DEFERRED TAXATION

Deferred tax assets comprise:

	Amounts provided		Amounts unrecognised	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Timing differences on:				
Accelerated capital allowances	(319)	37	-	-
Pensions	(2,596)	(37)	-	(2,799)
Other short term timing differences	(341)	-	-	(469)
Capital gains rolled over	2	-	-	2
Deferred corporation tax asset	<u>(3,254)</u>	<u>-</u>	<u>-</u>	<u>(3,266)</u>

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.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE ACCOUNTS (continued)

18 CALLED UP SHARE CAPITAL

	2003	2002
	£'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>

19 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2003	2002
	£'000	£'000
Profit for the financial year	24,741	20,919
Dividends paid	<u>(5,001)</u>	<u>-</u>
Movement in shareholders' funds	19,740	20,919
Shareholders' funds at 1 January	104,614	83,695
Shareholders' funds at 31 December	<u>124,354</u>	<u>104,614</u>

20 COMMITMENTS

Guarantees

The Company is part of a group cross guarantee arrangement whereby it has guaranteed the overdrafts of certain other group undertakings and other group undertakings have guaranteed the Company's overdraft. At 31 December 2003, the Company's exposure under this guarantee was £35,519,247 (2002: £106,356,046).

Operating leases

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

	Land and buildings		Motor vehicles	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Next year	11	7	13	-
Second to fifth year from balance sheet date	310	340	56	-
Thereafter	<u>1,270</u>	<u>1,322</u>	<u>-</u>	<u>-</u>
	<u>1,591</u>	<u>1,669</u>	<u>69</u>	<u>-</u>

Some of the commitments for land and buildings relate to vacant properties and have been fully provided under Note 15 on page 16.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE ACCOUNTS (continued)

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 ULTIMATE OWNERSHIP

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

The ultimate parent undertaking 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. Centrica plc is the smallest and largest group to consolidate these financial statements.