

AA SPC CO LIMITED
DIRECTORS' REPORT
AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005



Registered Number: 5088289

AA SPC CO LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2005

The directors present their report and audited financial statements of AA SPC Co Limited for the year ended 31 December 2005.

DIRECTORS

The directors, who held office in the year, were as follows:

Sir Trevor Chinn
Derek Elliott
Jonathan Kaye (Appointed 28 November 2005)
Robert Lucas
Donald Mackenzie (Resigned 28 November 2005)
Timothy Parker
Charles Sherwood
Paul Woolf (Appointed 1 June 2005)

Paul Woolf was also appointed company secretary on 1 June 2005.

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

Details of the interests of all the directors in the shares in the ultimate parent company, AA Top Co Limited, are shown in that company's financial statements for 2005.

PRINCIPAL ACTIVITIES

The Company's principal activity is that of a holding company.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The Company continues to hold external borrowings in subordinated preference certificates. The funds raised from these borrowings have been advanced to the Company's subsidiary undertaking, AA Junior Mezzanine Limited.

RESULTS AND DIVIDENDS

The loss for the period, as set out in the profit and loss account on page 4, was £6.0m. The directors do not recommend the payment of a dividend for the period (2004: £nil) and the loss has been transferred to reserves.

POST BALANCE SHEET EVENTS

On the 15 March 2006, the AA Group restructured its borrowings. As part of this, the Company received a repayment of £525.0m on subordinated permanent securities from its subsidiary undertaking, AA Junior Mezzanine Limited. The Company then repaid £510.0m of subordinated preference certificates. See note 17.

AA SPC CO LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

FINANCIAL RISKS

The Company is part of the AA Top Co Group. Its financial risks are managed centrally by the Group Treasury team taking into account the Company's position as part of the group with due consideration being given to the impact of transactions with other group entities. The most important components of financial risk impacting the Company are interest rate risk and liquidity risk.

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

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that suitable accounting policies have been used. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the period ended 31 December 2005 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office.

BY ORDER OF THE BOARD


SIR TREVOR CHINN
DIRECTOR
28 April 2006

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

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
AA SPC CO LIMITED**

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

Respective responsibilities of directors and auditors

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

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

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

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

Basis of audit opinion

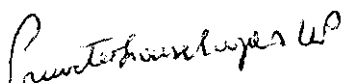
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the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



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London, 28 April 2006

AA SPC CO LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 £m	2004 (3 months) £m
Interest receivable and similar income	2	88.4	20.8
Interest payable and similar charges	3	(97.0)	(23.0)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	4	<u>(8.6)</u>	<u>(2.2)</u>
TAXATION ON LOSS ON ORDINARY ACTIVITIES	6	2.6	-
LOSS FOR THE FINANCIAL YEAR/PERIOD		<u>(6.0)</u>	<u>(2.2)</u>

All items dealt with in arriving at the loss before taxation relate to continuing activities.

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 2005 and 2004 other than the results for the financial period reported above and, therefore, no separate statement of total recognised gains and losses is presented.

The notes on pages 6 to 11 form part of these financial statements.

AA SPC CO LIMITED

BALANCE SHEET AT 31 DECEMBER 2005

	Notes	2005 £m	2004 £m
FIXED ASSETS			
Investments in group undertakings	7	-	-
CURRENT ASSETS			
Debtors	8	563.5	475.7
Investments – short term deposits		27.3	100.1
		<u>590.8</u>	<u>575.8</u>
CREDITORS (amounts falling due within one year)	9	(0.2)	-
NET CURRENT ASSETS		<u>590.6</u>	<u>575.8</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		590.6	575.8
CREDITORS (amounts falling due after more than one year)	10	(598.3)	(577.5)
NET LIABILITIES		<u>(7.7)</u>	<u>(1.7)</u>
CAPITAL AND RESERVES			
Called up share capital	12	0.5	0.5
Profit and loss account	13	(8.2)	(2.2)
EQUITY SHAREHOLDERS' DEFICIT	14	<u>(7.7)</u>	<u>(1.7)</u>

The financial statements on pages 4 to 11 were approved by the board of directors on 28 April 2006 and were signed on its behalf by:


SIR TREVOR CHINN
DIRECTOR

The notes on pages 6 to 11 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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. The principal accounting policies, which have been applied on a consistent basis with the prior period are set out below.

Basis of preparation

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

The Company has a deficit on net assets as at 31 December 2005. A group undertaking has committed to provide support to enable the Company to continue to meet its current liabilities as they fall due for at least the 12 months following the date of approval of the financial statements. Therefore, the financial statements have been prepared using the going concern assumption.

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 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 substantially enacted by the balance sheet date.

Deferred tax is measured on a non-discounted basis.

Investments

Fixed asset investments are stated at cost, less any permanent provisions for impairment.

Current asset investments are stated at the lower of cost and net realisable value.

AA SPC CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. They are classified according to the substance of the contractual arrangements entered into.

a) Debt instruments

Debt is recognised in the balance sheet as the cash proceeds received less finance costs incurred directly in connection with the issue of the instrument. Finance costs in respect of the instruments, including discounts on issue, are charged to the profit and loss account over the term of the instrument to achieve a constant rate on the balance outstanding.

b) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all its liabilities.

2 INTEREST RECEIVABLE AND SIMILAR INCOME

	2005	2004 (3 months)
	£m	£m
Bank short term interest receivable	1.8	0.8
Interest from subordinated permanent securities	<u>86.6</u>	<u>20.0</u>
	<u>88.4</u>	<u>20.8</u>

3 INTEREST PAYABLE AND SIMILAR CHARGES

	2005	2004 (3 months)
	£m	£m
Discount on subordinated preference certificates (see note 10)	94.3	23.0
Amortisation of issue costs	<u>2.7</u>	<u>-</u>
	<u>97.0</u>	<u>23.0</u>

4 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

The loss on ordinary activities before tax is stated after charging an audit fee of £15,000 (2004: £10,000). The Company had no employees.

5 DIRECTORS' EMOLUMENTS

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

AA SPC CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

6 TAXATION ON LOSS ON ORDINARY ACTIVITIES

	2005	2004 (3 months)
	£m	£m
The tax credit is made up as follows:		
Corporation tax		
Current year	(2.1)	-
Prior year	(0.5)	-
Total tax credit for the year	<u>(2.6)</u>	<u>-</u>

The £2.6m tax credit arises from the sale of tax losses.

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

	2005	2004 (3 months)
	£m	£m
Loss on ordinary activities before tax	<u>(8.6)</u>	<u>(2.2)</u>
Tax on loss on ordinary activities at standard UK Corporation tax rate of 30% (2004: 30%)	(2.6)	(0.7)
Effects of:		
Losses not utilised	-	0.7
Permanent timing differences	0.5	-
Adjustment to prior periods	(0.5)	-
Current tax credit for the period	<u>(2.6)</u>	<u>-</u>

7 INVESTMENTS IN GROUP UNDERTAKINGS

	2005	2004
	£	£
Cost		
At 1 January	2	-
Additions	-	2
At 31 December	<u>2</u>	<u>2</u>

The investments in group undertakings are stated at a cost of £2.

AA SPC CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 INVESTMENTS IN GROUP UNDERTAKINGS (continued)

The principal trading undertakings at 31 December 2005 were as follows:

<u>Subsidiary undertakings</u>	<u>Country of incorporation</u>	<u>% holdings in ordinary shares</u>	<u>Principal activity</u>
AA Junior Mezzanine Co Limited (1)	England	100	Holding company
AA Acquisition Co Limited	England	100	Holding company
AA Corporation Limited	England	100	Holding company
The Automobile Association Limited	Jersey	100	Roadside services
Automobile Association Developments Limited	England	100	Roadside services
Automobile Association Underwriting Services Limited	England	100	Roadside and financial services
Volkswagen Assistance Limited	England	100	Roadside services
AA Ireland Limited	Ireland	100	Roadside and financial services
AA Road Services Limited	England	100	Roadside services
Automobile Association Insurance Services Limited	England	100	Roadside and financial services
A.A. Reinsurance Company (Guernsey) Limited	Guernsey	100	Financial services
AA The Driving School Agency Limited	England	100	Franchise operation
Fanum Guernsey Limited	Guernsey	100	Financial services
Dedicated Roadside Assistance Limited	England	100	Roadside services
Tourist Accommodation Management Services Limited	Ireland	100	Accommodation registration
<u>Joint Ventures</u>			
AA Financial Services	England	(2)	Financial services
Automobile Association Personal Finance Limited	England	50	Financial services
<u>Associates</u>			
A.C.T.A. SA	France	20	Roadside services
A.C.T.A. Assistance SA	France	20	Roadside services
Europe Net SA	Luxembourg	20	Roadside services
ARC Transistance SA	Belgium	20	Roadside services

(1) All principal undertakings are indirectly held by the Company, except for AA Junior Mezzanine Co Limited, which is a direct subsidiary undertaking.

(2) AA Financial Services is an unincorporated entity in which there is a 50% interest.

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

8 DEBTORS

	2005 £m	2004 £m
Amounts receivable within one year		
Amounts owed by group undertakings – subordinated permanent securities	561.4	475.7
Amounts owed by other group undertakings	2.1	-
	<u>563.5</u>	<u>475.7</u>

The amounts owed by group undertakings comprise subordinated permanent securities issued by the Company's subsidiary, AA Junior Mezzanine Co Limited. They are unsecured, bear interest at 16.5% p.a. compounded quarterly and have no repayment terms. They are convertible into ordinary shares of AA Junior Mezzanine Co Limited at the option of the Company at any time. The total of outstanding subordinated permanent securities, plus any unpaid interest, are convertible into the same number of £1 ordinary shares.

AA SPC CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

9 CREDITORS (amounts falling due within one year)

	2005 £m	2004 £m
Amounts owed to group undertakings	<u>0.2</u>	<u>-</u>

10 CREDITORS (amounts falling due after more than one year)

	2005 £m	2004 £m
Borrowings		
Debenture loans: Subordinated preference certificates	<u>598.3</u>	<u>577.5</u>
Maturity of debt:		
In more than five years	<u>598.3</u>	<u>577.5</u>

The subordinated preference certificates were issued on 30 September 2004 at a subscription price of £554.5m with a nominal value of £3,283.3m, redeemable at par on 30 September 2015. The certificates are included in the balance sheet at the value of their proceeds plus amortised discount to the balance sheet date. The discount, amortised on a compound basis, is charged to net interest payable and similar charges in the profit and loss account over the term of the instrument to give an effective rate of 16.5%, compounded quarterly. The certificates are unsecured.

Subordinated preference certificates are stated net of unamortised issue costs of £23.7m (2004: £nil). These costs are charged to the profit and loss account on a constant rate over the term of the debt.

On 23 March 2005, the Group repaid £50m of subordinated preference certificates. £510m were also redeemed early on 8 March 2006 (see note 17).

11 DEFERRED TAXATION

There is no provision for deferred tax in the year and there are no unrecognised deferred tax timing differences that fall to be disclosed (2004: unrecognised unutilised tax losses of £0.7million).

12 CALLED UP SHARE CAPITAL

	2005 £	2004 £
Authorised		
547,950 ordinary shares of £1 each	<u>547,950</u>	<u>547,950</u>
Allotted, called up and fully paid		
547,950 ordinary shares of £1 each	<u>547,950</u>	<u>547,950</u>

13 PROFIT AND LOSS ACCOUNT

	2005 £m	2004 £m
At 1 January	(2.2)	-
Loss for the year (2004: 3 month period)	<u>(6.0)</u>	<u>(2.2)</u>
At 31 December	<u>(8.2)</u>	<u>(2.2)</u>

AA SPC CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

14 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' DEFICIT

	2005	2004
	£m	£m
Retained loss for the financial period	(6.0)	(2.2)
Issue of ordinary share capital	-	0.5
Net decrease in shareholders' deficit	(6.0)	(1.7)
Shareholders' deficit at 1 January	(1.7)	-
Shareholders' deficit at 31 December	(7.7)	(1.7)

15 RELATED PARTY TRANSACTIONS

The Company is exempt from the requirement to disclose related party transactions with other group undertakings under FRS 8. There are no other related party transactions which require disclosure.

16 CONTINGENT LIABILITIES

The Company's assets have been provided as security for bank loans provided to two of the Company's subsidiary companies, AA Acquisition Co Limited and AA Junior Mezzanine Co Limited.

17 POST BALANCE SHEET EVENTS

On the 15 March 2006, the AA Group restructured its borrowings. As part of this, the Company received a repayment of £525.0m on subordinated permanent securities from its subsidiary undertaking, AA Junior Mezzanine Limited. The Company then repaid £510.0m of subordinated preference certificates.

18 ULTIMATE OWNERSHIP

The Company is a wholly owned subsidiary of AA Top Co Limited, a Company registered in England and Wales, which is also the Company's ultimate parent undertaking.

AA Top Co Limited is also the parent of the smallest and largest group to consolidate these accounts and its registered office is situated at Fanum House, Basing View, Basingstoke, Hampshire RG21 4EA. Copies of the financial statements of AA Top Co Limited are available from the Company Secretary at this address.