

**AA SPC CO LIMITED
DIRECTORS' REPORT
AND
FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2004**



Registered Number: 05088289

AA SPC CO LIMITED

DIRECTORS' REPORT

FOR THE PERIOD ENDED 31 DECEMBER 2004

The directors present their report and audited financial statements of AA SPC Co Limited for the period ended 31 December 2004.

DIRECTORS

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

Sir Trevor Chinn	(appointed 25 June 2004)
Derek Elliott	(appointed 1 October 2004)
Robert Lucas	(appointed 29 September 2004)
Donald Mackenzie	(appointed 29 September 2004)
Tim Parker	(appointed 25 June 2004)
Charles Sherwood	(appointed 25 June 2004)
Ian Sellars	(appointed 25 June 2004, resigned 1 October 2004)
Matthew Layton	(appointed 30 March 2004, resigned 25 June 2004)
David Pudge	(appointed 30 March 2004; resigned 25 June 2004)

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 all the directors in the shares in the ultimate parent company, AA Top Co Limited, are shown in that company's financial statements for 2004.

PRINCIPAL ACTIVITIES

AA SPC Co Limited (the "Company") was incorporated on 30 March 2004 as Ribbonway Limited; it changed its name to Beta SPC Co Limited on 25 June 2004, and, subsequently, to AA SPC Co Limited on 4 October 2004.

The Company acts as a holding company.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The Company's activities commenced on 30 September 2004 following the acquisition of all of the share capital of AA Corporation Limited by a subsidiary of the Company, AA Acquisition Co Limited. In part, this acquisition was funded by the Company issuing subordinated preference certificates (see note 9). These funds were, in turn, passed to the Company's direct subsidiary, AA Junior Mezzanine Co Limited, when that company issued subordinated permanent securities, which were subscribed for by the Company (see note 8).

RESULTS AND DIVIDENDS

The profit and loss account includes the activity for three months from 1 October 2004 to 31 December 2004, following the acquisition of AA Corporation Limited, mentioned above. The loss for the period, as set out in the profit and loss account on page 4, was £2.2m. The directors do not recommend the payment of a dividend for the period, and accordingly, the net loss after tax of £2.2m is transferred to reserves.

POST BALANCE SHEET EVENT

On 23 March 2005, the Company repaid £46.3 million of subordinated preference certificates issued on 30 September 2004, together with amortised discount to 23 March 2005 of £3.7 million.

AA SPC CO LIMITED

DIRECTORS' REPORT

FOR THE PERIOD ENDED 31 DECEMBER 2004 (continued)

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.

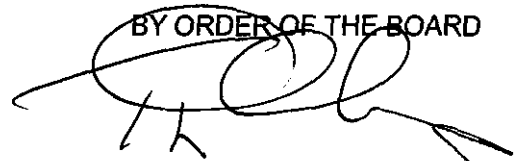
The directors confirm that suitable accounting policies have been used. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the period ended 31 December 2004 and that applicable accounting standards have been followed.

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
22 APRIL 2005

Registered Office:
10 Upper Bank Street
London
E14 5JJ

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

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 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 loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
CHARTERED ACCOUNTANTS AND REGISTERED AUDITORS
SOUTHAMPTON, 22 April 2005

AA SPC CO LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDED 31 DECEMBER 2004**

	Notes	2004 £'m
Other interest receivable and similar income	2	20.8
Interest payable and similar charges	3	(23.0)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	4	(2.2)
TAXATION ON LOSS ON ORDINARY ACTIVITIES	6	-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION AND RETAINED LOSS FOR THE FINANCIAL PERIOD		(2.2)

All items dealt with in arriving at the loss before taxation relate to continuing acquired 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 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 10 form part of these financial statements.

AA SPC CO LIMITED

BALANCE SHEET AT 31 DECEMBER 2004

	Notes	2004 £m
FIXED ASSETS		
Investments in group undertakings	7	-
CURRENT ASSETS		
Debtors	8	475.7
Investments – short term deposits		100.1
NET CURRENT ASSETS		<u>575.8</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		575.8
CREDITORS (amounts falling due after more than one year)	9	(577.5)
NET LIABILITIES		<u>(1.7)</u>
CAPITAL AND RESERVES		
Called up share capital	11	0.5
Profit and loss account	12	(2.2)
EQUITY SHAREHOLDERS' DEFICIT	13	<u>(1.7)</u>

The financial statements on pages 4 to 10 were approved by the board of directors on 21 April 2005 and were signed on its behalf by:


SIR TREVOR CHINN
DIRECTOR

The notes on pages 6 to 10 form part of these financial statements

AA SPC CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention and the Companies Act 1985.

The Company has a deficit on net assets as at 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. Therefore, the financial statements have been prepared using the going concern assumption.

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).

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.

Capital 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.

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.

AA SPC CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	2004
	£m
Bank short term interest receivable	0.8
Interest from subordinated permanent securities	20.0
	20.8

3 INTEREST PAYABLE AND SIMILAR CHARGES

	2004
	£m
Discount on subordinated preference certificates	23.0

4 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

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

5 DIRECTORS' EMOLUMENTS

Sir Trevor Chinn and Tim Parker 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.

6 TAXATION ON LOSS ON ORDINARY ACTIVITIES

	2004
	£m
The taxation charge is made up as follows:	
Corporation tax at 30%	-
Deferred tax	-
	-

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:

	2004
	£m
Loss on ordinary activities before tax	(2.2)
Tax on loss on ordinary activities at standard UK Corporation tax rate of 30%	(0.7)
Effects of:	
Losses not utilised	0.7
Current tax charge for the period	-

AA SPC CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 INVESTMENTS IN GROUP UNDERTAKINGS

Cost	2004
Additions (£2)	£m
At 31 December 2004	-

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

The principal trading subsidiary undertakings at 31 December 2004 were as follows:

<u>Company</u>	<u>Country of incorporation</u>	<u>% holdings in ordinary shares</u>	<u>Principal activity</u>
AA Junior Mezzanine Co Limited	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 and financial 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	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

All principal undertakings are indirectly held by the company, except for AA Junior Mezzanine Co Limited, which is a direct subsidiary undertaking. The percentage of voting rights are the same as the percentage holdings in ordinary shares.

8 DEBTORS

	2004
	£m
Amounts receivable within one year	
Amounts owed by group undertakings – subordinated permanent securities	475.7

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 annually 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 after more than one year)

	2004 £m
Borrowings	
Debenture loans: Subordinated preference certificates	<u>577.5</u>
Maturity of debt:	
<i>In more than five years</i>	<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 2014. They 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. They are unsecured. The rights of the holders of the subordinated preference certificates are subordinated to the rights of all creditors.

10 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, other than the unrecognised unutilised tax losses of £0.7million.

11 CALLED UP SHARE CAPITAL

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

On 30 March 2004, the Company was formed with two initial subscribers subscribing for £1 share each, issued at par.

On 30 September 2004, the authorised share capital of 100 ordinary shares of £1 was increased to 547,950 Ordinary shares of £1 and on the same day 547,948 ordinary shares were issued at par for cash.

12 PROFIT AND LOSS ACCOUNT

	Total £m
Loss for the financial period	(2.2)
At 31 December 2004	<u>(2.2)</u>

AA SPC CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

13 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' DEFICIT

	£m
Retained loss for the financial period	(2.2)
Issue of ordinary share capital	0.5
Net decrease in shareholders' funds	<u>(1.7)</u>
Shareholders' funds at 31 December 2004	<u>(1.7)</u>

14 RELATED PARTY TRANSACTIONS

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 which require disclosure.

15 CONTINGENT LIABILITIES

The Company's assets have been provided as security for bank loans provided to two of the Company's subsidiary companies.

16 POST BALANCE SHEET EVENT

On 23 March 2005, the Company repaid £46.3 million of subordinated preference certificates issued on 30 September 2004, together with amortised discount to the date of repayment of £3.7 million.

17 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 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.