

**ANCON INSURANCE COMPANY (U.K.) LIMITED**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 1999**



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**Directors**

L C W Brown

B A Maher

J D Whitelaw

R L Barclay

F A Risch

Chairman

(appointed 18 May 1999)

(resigned 18 May 1999)

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**Corporate Secretary**

Eastgate Insurance Services Limited

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**Auditors**

PricewaterhouseCoopers

31 Great George Street, Bristol BS1 5QD

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**Bankers**

Barclays Bank PLC

Citibank, N A

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**Managers**

Eastgate Insurance Services Limited

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**Registered and Administrative Offices**

Eastgate House, 40 Dukes Place, London EC3A 7NH

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**Registered Number**

1506943

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**REPORT OF THE DIRECTORS**

For the year ended 31 December 1999

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The Directors present their financial statements for the year ended 31 December 1999.

**Principal activities**

The principal activity of the Company is insurance and reinsurance business. The Company ceased active underwriting on 1st October 1984, but has continued to trade in fulfilment of its continuing commitments on insurance business contracted prior to that date. The Company will continue the orderly run-off of its business.

The Company has successfully completed a number of commutations during the year, which has reduced the insurance fund.

**Directors' responsibilities for the financial statements**

The Directors are required by UK company law to prepare financial statements for each financial year that 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 of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to 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.

**Financial statements**

The Directors submit herewith the Profit and Loss Account of the Company for the year ended 31 December 1999, together with the Balance Sheet as at that date. The results for the period are set out on page 5.

**Insurance fund**

Between 1981 and 1984, the Company wrote a London market account. In view of the nature of this business, some uncertainty exists as to the ultimate loss position. An independent actuarial review was carried out as at 30 June 1998, and subsequent internal reviews carried out to 31 December 1999. The Directors have established reserves for expected loss development within the range predicted by this review. The fund is £7,921,582.

**Directors and secretary**

The Directors of the Company during the year and the corporate secretary are shown on page 1.

**REPORT OF THE DIRECTORS (contd)**

For the year ended 31 December 1999

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**Directors' shareholdings**

Under the provisions of The Companies (Disclosure of Directors' Interests) (Exceptions) Regulations 1985, the Directors of the Company are exempt from disclosing to this Company any interest they may have in shares of the ultimate holding Company.

**Dividend**

The Directors do not recommend the payment of a dividend.

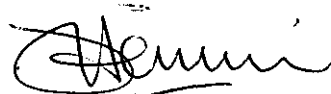
**Auditors**

PricewaterhouseCoopers have expressed their willingness to continue in office as auditors and accordingly, a resolution will be proposed at the next Annual General Meeting, in accordance with Section 384 of the Companies Act 1985 to reappoint PricewaterhouseCoopers as auditors.

**Year 2000**

The Company is principally reliant on the systems of its external supplier, Eastgate Insurance Services Limited (EIS), and the systems of its parent, Esso Holding Company UK Inc. The Company is not aware of any Year 2000 problems arising in EIS or Esso Holding Company UK Inc and therefore does not anticipate incurring any additional costs.

By Order of the Board



for Eastgate Insurance Services Limited  
Corporate Secretary  
London, 23 May 2000

**AUDITORS' REPORT**

to the Shareholders of **ANCON INSURANCE COMPANY (U.K.) LIMITED**

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We have audited the financial statements for the year ended 31 December 1999 on pages 5 to 13 which have been prepared under the historical cost convention, and the accounting policies set out on page 9.

**Respective responsibilities of directors and auditors**

The Directors are responsible for preparing the Annual Report. As described on page 2, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

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 United Kingdom Companies Act. 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.

**Basis of 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 circumstances of the Company, 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.

In forming our opinion, we have considered the adequacy of the disclosures made in note 1(e) and note 9 to the financial statements concerning the fundamental uncertainty attaching to the quantification of the technical provision for claims outstanding and the outcome of the run-off. The ultimate liability will vary as a result of subsequent information and developments, and significant adjustments may be necessary to the amounts provided. Our opinion is not qualified in this respect.

**Opinion**

In our opinion, the financial statements give a true and fair view of the Company's affairs at 31 December 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*PricewaterhouseCoopers*  
PricewaterhouseCoopers  
Chartered Accountants and Registered Auditors

31 Great George Street  
Bristol  
BS1 5QD

Date: 23 May 2000

**PROFIT AND LOSS ACCOUNT**

For the year ended 31 December 1999

	<u>Notes</u>	<u>1999</u> £	<u>1998</u> <u>Restated</u> £
<b>TECHNICAL ACCOUNT - GENERAL BUSINESS</b>			
Gross premiums		12,356	12,518
Outward reinsurance premiums		(381,317)	(2,941)
Earned premiums, net of reinsurance		(368,961)	9,577
Gross claims paid		7,850,722	2,047,789
Reinsurers' share		(5,779,537)	(664,706)
Net claims paid		2,071,185	1,383,083
Change in the provision for claims - gross amount		(9,512,557)	(5,443,381)
- reinsurers' share		5,357,999	(4,353,062)
Net change in the provision for claims		(4,154,558)	(1,090,319)
Claims incurred, net of reinsurance		(2,083,373)	292,764
Net operating expenses	2	599,380	10,762
BALANCE ON THE TECHNICAL ACCOUNT		1,115,032	(293,949)
<b>NON-TECHNICAL ACCOUNT</b>			
Balance on the general business technical account		1,115,032	(293,949)
Investment income	4	738,372	866,774
		1,853,404	572,825
Investment expenses and charges - investment management expenses		29,668	24,924
RETAINED PROFIT FOR THE FINANCIAL YEAR		1,823,736	547,901

The notes on pages 9 to 13 form part of these financial statements

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 1999

	<u>1999</u>	<u>1998</u>
	£	<u>Restated</u> £
Retained profit for the financial year	1,823,736	547,901
Surplus/(deficit) on retranslation of net currency assets	31,983	(20,315)
	<hr/>	<hr/>
Total recognised gains	1,855,719	527,586
Prior year adjustment (as explained in note 9)	(2,310,448)	<hr/>
	<hr/>	
Total gains and losses recognised since last annual report	(454,729)	
	<hr/>	

The notes on pages 9 to 13 form part of these financial statements

**BALANCE SHEET**

as at 31 December 1999

	<u>Notes</u>	<u>1999</u> £	<u>1998</u> £
<b>ASSETS</b>			
<b>INVESTMENTS</b>	6		
Other financial investments		12,222,634	14,167,879
 <b>REINSURERS SHARE OF TECHNICAL PROVISIONS</b>	9		
Claims outstanding		1,888,401	7,024,218
 <b>DEBTORS</b>			
Debtors arising out of direct insurance operations - intermediaries		42,004	49,425
Debtors arising out of reinsurance operations		2,724,527	2,248,132
		<u>2,766,531</u>	<u>2,297,557</u>
 <b>OTHER ASSETS</b>			
Cash at bank and in hand		326,261	458,963
 <b>PREPAYMENTS AND ACCRUED INCOME</b>		4,549	-
 <b>TOTAL ASSETS</b>		<u>17,208,376</u>	<u>23,948,617</u>

The notes on pages 9 to 13 form part of these financial statements

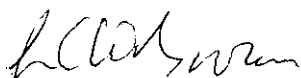


**BALANCE SHEET**

as at 31 December 1999

	<u>Notes</u>	<u>1999</u> £	<u>1998</u> <u>Restated</u> £
<b>LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Called up share capital	8	49,025,000	49,025,000
Profit and loss account	10	(43,385,257)	(45,240,976)
Shareholder funds attributable to equity interests		<u>5,639,743</u>	<u>3,784,024</u>
<b>TECHNICAL PROVISIONS</b>			
Claims outstanding	9	9,809,983	18,730,092
<b>CREDITORS</b>			
Arising out of direct insurance operations		330,941	303,639
Arising out of reinsurance operations		<u>1,369,278</u>	<u>1,089,528</u>
		<u>1,700,219</u>	<u>1,393,167</u>
<b>ACCRUALS</b>			
		<u>58,431</u>	<u>41,334</u>
<b>TOTAL LIABILITIES</b>		<u>17,208,376</u>	<u>23,948,617</u>

Approved by the Board of Directors on 23 May 2000



L C W Brown, Director

The notes on pages 9 to 13 form part of these financial statements

**NOTES TO THE ACCOUNTS**

as at 31 December 1999

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**1 ACCOUNTING POLICIES**

**(a) Basis of preparation**

The accounts have been prepared in compliance with the provisions relating to insurance companies of Section 255 of, and Schedule 9A to, the Companies Act 1985, and with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ("the ABI SORP") dated December 1998.

**(b) Standard accounting practice**

The accounts comply with applicable accounting standards.

**(c) Basis of accounting**

The financial statements are prepared in accordance with the historical cost convention.

**(d) Change in accounting policy**

The Company has not discounted its outstanding claims provisions to reflect the time value of money. Previously, asbestos and pollution claims provisions were discounted. The effect of this change in accounting policy is set out in note 9 to the Accounts. Comparative amounts have been restated, where necessary.

**(e) Revenue account**

The insurance fund is assessed by reference to projections of the ultimate development of premiums and claims in respect of each underwriting year.

Claims are accounted for in respect of all incidents up to the year end. Provision is made for the estimated cost of:

- (i) Claims reported but not settled.
- (ii) Claims incurred but not yet reported.
- (iii) Claims handling expenses.

The claims provision includes amounts in respect of potential claims on long tail casualty business. Whilst the Directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events that may result in significant adjustments to the amount provided. Adjustments to the amounts of provision are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

**(f) Translation of foreign currencies**

Assets and liabilities are translated to Sterling at rates ruling on the Balance Sheet date. Revenue transactions in the principal overseas currencies in which the Company transacts business are also translated to Sterling at the rates ruling on the Balance Sheet date. Realised exchange differences are dealt with in the result for the year, unrealised exchange differences are adjusted against retained profits brought forward or within changes in the provision for claims, as appropriate.

**(g) Investment income**

Investment income is shown before deduction of tax and is reported on an accruals basis.

**(h) Cash flow statement and related party disclosures**

The Company is a 100% subsidiary within the Exxon Mobil Corporation Group and is included in the consolidated financial statements of Exxon Mobil Corporation, which are publicly available. Therefore the Company utilises the exemption contained in paragraph 5(a) of FRS 1 Cash Flow statements not to prepare a cash flow statement. The Company also utilises the exemption contained in paragraph 3(c) of FRS 8 Related Party Disclosures not to disclose any transactions with any entities that are part of that group.

**NOTES TO THE ACCOUNTS (contd)**  
as at 31 December 1999

**2 NET OPERATING EXPENSES**

	<u>1999</u> £	<u>1998</u> £
Acquisition costs	1,039	336
Administration expenses	598,454	10,491
	<hr/>	<hr/>
Reinsurance commissions	599,493 (113)	10,827 (65)
	<hr/>	<hr/>
Net operating expenses	599,380	10,762
	<hr/>	<hr/>

**3 ADMINISTRATION EXPENSES**

Administration expenses include:	<u>1999</u> £	<u>1998</u> £
Bad debt costs/(write back)	340,952	(156,039)
Auditors' remuneration – audit fees	31,463	22,647
Directors' emoluments	-	-
	<hr/>	<hr/>
	372,415	(133,392)
	<hr/>	<hr/>

The company has no employees and has sub-contracted its administration to Eastgate Insurance Services Limited.

**4 INVESTMENT INCOME**

	<u>1999</u> £	<u>1998</u> £
Income from intra group loans & deposits to fellow subsidiary undertaking	738,372	866,774
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**5 TAXATION**

There is no corporation tax charge as the Company's taxable profits during the year have been offset against taxable losses brought forward (1998 nil).

No deferred tax has been provided as in the opinion of the Directors no taxation liability will arise in the foreseeable future.

**6 INVESTMENTS**

	<u>1999</u> £	<u>Current Value</u> <u>1998</u> £	<u>1999</u> £	<u>Historical Cost</u> <u>1998</u> £
Intra group loans and deposits to fellow subsidiary undertaking	<u>12,222,634</u>	<u>14,167,879</u>	<u>12,222,634</u>	<u>14,167,879</u>

The Intra group loans and deposits have no specified maturity period. £11,893,100 of the above is based on a 90 day interest period and £329,534 is based on a 30 day interest period.

## NOTES TO THE ACCOUNTS (contd)

as at 31 December 1999

**7 DIRECTORS EMOLUMENTS***The total emoluments were nil (1998 nil).***8 SHARE CAPITAL**

	<u>1999</u> £	<u>1998</u> £
Authorised 60,000,000 (1998 - 60,000,000) Ordinary shares of £1	60,000,000	60,000,000
Issued and fully paid 49,025,000 (1998 - 49,025,000) Ordinary shares of £1	49,025,000	49,025,000

**9 OUTSTANDING CLAIMS PROVISION**

	<u>Gross</u> £	<u>Reinsurance</u> £	<u>Net</u> £
<u>1999</u>			
Claims outstanding	9,809,983	1,888,401	7,921,582
<u>1998 Restated</u>			
Claims outstanding	18,730,092	7,024,218	11,705,874

The accounting policy for discounting claims provisions has been changed in the current financial year. The Company does not discount its outstanding claims provisions to reflect the time value of money. Previously, asbestos and pollution claims provisions were discounted.

Prior year amounts have been restated to reflect this change in accounting policy. The change has had the effect of decreasing the current year profit on ordinary activities before taxation by £2,440,284 (1998: £2,310,448).

The effect of this accounting policy on the Company's reserves is shown in note 10.

The outstanding claims provision is reduced by £2 million owing to the favourable difference between the outstanding claims provisions at the beginning of the year less payments and commutations during the year.

**10 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	<u>Share</u> <u>capital</u> £	<u>Profit and</u> <u>loss account</u> £	<u>Total</u> £
<u>1999</u>			
Retained profit for the financial year	-	1,823,736	1,823,736
Other recognised gains and losses (net)	-	31,983	31,983
Net addition to shareholders' funds	-	1,855,719	1,855,719
Opening shareholders' funds (as previously stated)	49,025,000	(42,930,528)	6,094,472
Prior year adjustment (note 9)	-	(2,310,448)	(2,310,448)
Closing shareholders' funds at 31 December 1999	49,025,000	(43,385,257)	5,639,743

## NOTES TO THE ACCOUNTS (contd)

as at 31 December 1999

## 10 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS (continued)

## 1998

Retained profit for the financial year	-	547,901	547,901
Other recognised gains and losses (net)	-	(20,315)	(20,315)
Net addition to shareholders' funds	-	527,586	527,586
Opening shareholders' funds (as previously stated)	49,025,000	(43,714,591)	5,310,409
Prior year adjustment (note 9)	-	(2,053,971)	(2,053,971)
Closing shareholders' funds at 31 December 1998	49,025,000	(45,240,976)	3,784,024

## 11 SEGMENTAL INFORMATION

	<u>Direct Property</u> £	<u>Direct Liability</u> £	<u>Direct Other</u> £	<u>Total Direct</u> £	<u>Reinsurance</u> £	<u>Total</u> £
<b>1999</b>						
Gross premiums	-	-	-	-	20,621	20,621
- risks located in UK	(24)	(8,241)	-	(8,265)	-	(8,265)
	(24)	(8,241)	-	(8,265)	20,621	12,356
Gross premiums	(24)	(8,241)	-	(8,265)	20,621	12,356
Gross claims incurred	(22,488)	(1,434,633)	(61,898)	(1,519,019)	(142,816)	(1,661,835)
Gross operating expenses	4,143	250,249	18	254,410	345,083	599,493
Gross technical result	18,321	1,176,143	61,880	1,256,344	(181,646)	1,074,698
Reinsurance balance	(3,094)	(1,029,256)	-	(1,032,350)	992,016	(40,334)
Net technical result	21,415	2,205,399	61,880	2,288,694	(1,173,662)	1,115,032
Net technical provisions	59,133	3,256,519	-	3,315,652	4,605,930	7,921,582
	<u>Direct Property</u> £	<u>Direct Liability</u> £	<u>Direct Other</u> £	<u>Total Direct</u> £	<u>Reinsurance</u> £	<u>Total</u> £
<b>1998 Restated</b>						
Gross premiums	-	-	-	-	6,225	6,225
- risks located in UK	-	6,293	-	6,293	-	6,293
	-	6,293	-	6,293	6,225	12,518
Gross premiums	-	6,293	-	6,293	6,225	12,518
Gross claims incurred	(268,760)	706,499	(330)	437,409	4,267	441,676
Gross operating expenses	90	4,380	39	4,509	6,318	10,827
Gross technical result	268,670	(704,586)	291	(435,625)	(4,360)	(439,985)
Reinsurance balance	120,716	792,429	-	913,145	972,071	1,885,216
Net technical result	147,954	(1,497,015)	291	(1,348,770)	(976,431)	(2,325,201)
Net technical provisions	168,913	5,911,175	60,000	6,140,088	5,565,786	11,705,874

NOTES TO THE ACCOUNTS (contd)

as at 31 December 1999

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**11 SEGMENTAL INFORMATION (continued)**

All gross premiums in respect of direct business are written in the United Kingdom and those in respect of reinsurance business are written in the London Market.

**12 TRUST DEPOSITS**

During 1999 a Trust Fund guarantee of US\$1,500,000 was maintained in favour of the State of New York for the benefit of United States policyholders. The Trust Fund Agreement is supported by a Letter of Credit with Citibank issued by the Company. The Letter of Credit is guaranteed by Exxon Overseas Investment Corporation which is a subsidiary of the Company's ultimate parent undertaking.

**13 ULTIMATE PARENT UNDERTAKING**

The Company is owned by Esso Holding Company UK Inc, which is the immediate parent undertaking and controlling company. The ultimate parent undertaking of this company is Exxon Mobil Corporation incorporated in New Jersey, USA. This is the largest Group of which the company is a member, and for which Group accounts are prepared. The parent undertaking of the smallest Group of which the company is a member, and for which Group accounts are prepared is Esso Holdings Company U.K. Inc., which is registered in England. Copies of the above accounts are available from the secretary of the company at Esso House, Ermyrn Way, Leatherhead, Surrey KT22 8UZ.