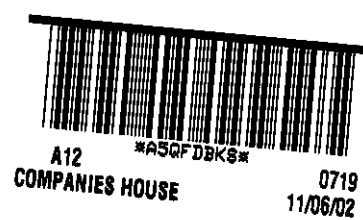


*RAC Insurance Limited*  
*Report and Financial Statements*  
*Year ended 31 December 2001*

*Registered Number: 2355834*



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|                          |  |
|--------------------------|--|
| <b>Directors</b>         | F M Caldwell<br>H M Posner<br>P W Hewitt<br>T J Beswick    |
| <b>Secretary</b>         | P M Coles  |
| <b>Registered office</b> | RAC House<br>1 Forest Road<br>Feltham<br>TW13 7RR          |
| <b>Company no.</b>       | 2355834  |
| <b>Auditors</b>          | KPMG Audit Plc<br>8 Salisbury Square<br>London<br>EC4Y 8BB |

The directors have pleasure in submitting their report together with the audited financial statements for the company for the year ended 31 December 2001.

#### Principal activities

The principal activity of the company is the provision of insurance under classes 16 to 18 of General Insurance as defined by section 1 of the Insurance Companies Act 1982.

#### Business Review

The company's results are detailed on page 8.

No interim dividends were paid during the year. The directors do not recommend the payment of a final dividend.

#### Directors and directors' interests

The directors who held office during the year are shown on page 1.

None of the persons who were directors at 31 December 2001 had any interests in the shares of the company or its subsidiary undertakings.

P W Hewitt is also a director of Lex Service PLC, the company's ultimate parent company and his interests in the shares of group undertakings are stated in the directors' report of that company.

T J Beswick is also a director of RAC Recovery (formerly known as RAC), the company's intermediate parent company, and his interests in the shares of Lex Service PLC are stated in the directors' report of that company.

Otherwise, the remaining directors who held office at the end of the year had the following interests in the ordinary shares of Lex Service PLC as recorded in the register of directors' share and debenture interests:-

|              | Ordinary shares of 25p each |                  |
|--------------|-----------------------------|------------------|
|              | 31 December 2001            | 31 December 2000 |
| F M Caldwell | 12,000                      | 12,000           |
| H M Posner   | -                           | -                |

#### Executive Share Option Scheme

During the year a new Executive Share Option Scheme ("the Scheme") was introduced to replace the Long Term Incentive Plan ("the LTIP") which had been operated since 1998. Options are granted annually. Options have a seven year life and are normally exercisable no earlier than three years from the date of grant to the extent that the performance targets have been met.

The following director held options at the beginning and end of the year to subscribe for ordinary shares of 25p each in Lex Service PLC.

| Name         | 1 January<br>2001 | Granted | 31 December<br>2001 | Date of grant | Date from which<br>exercisable | Expiry date | Exercise price | £    |
|--------------|-------------------|---------|---------------------|---------------|--------------------------------|-------------|----------------|------|
| F M Caldwell | -                 | 53,184  | 53,184              | 21.06.01      | 21.06.04                       | 21.06.08    |                | 5.81 |

**Directors and directors' interests (continued)**

*Lex Sharesave Scheme*

Under the terms of the Scheme, introduced in 1997, the Board of Lex Service PLC, the company's ultimate parent company, may offer options to purchase ordinary shares in Lex Service PLC, to those eligible employees who enter into an Inland Revenue approved Save As You Earn (SAYE) savings contract. The price at which options may be offered is up to a maximum discount of 20% of the market price for three consecutive dealing days preceding the date of offer. The options may normally be exercised during the period of six months after the completion of the SAYE contract, whether three or five years after entering the Scheme.

Options held under the Scheme by the following director who served during the year are as follows:

| Name         | Number of shares under option at 1 January 2001 | Number of shares under option at 31 December 2001 | Exercise price £ | Date of grant | Date from which normally exercisable | Expiry date |
|--------------|---|---|------------------|---------------|--------------------------------------|-------------|
| F M Caldwell | 3,909   | 3,909   | 2.59             | 31.03.00      | 01.05.05                             | 01.11.05    |
|              | -   | 1,569   | 4.30             | 07.09.01      | 01.11.06                             | 01.05.07    |

The outstanding options under the 2000 Lex Sharesave Scheme are exercisable for up to six months commencing on 1 May 2005

The outstanding options under the 2001 Lex Sharesave Scheme are exercisable for up to six months commencing on 1 November 2006

*Long Term Incentive Plan*

The Long Term Incentive Plan was approved by shareholders at the Lex Service PLC 1998 Annual General Meeting. It is designed to align the interests of executive directors and the other senior executives with those of shareholders, to encourage increased shareholding, to assist with the attraction and retention of individuals who will be crucial to the Group's success in the coming years and to reward sustained good performance over a period of time.

Details of the Lex Service PLC ordinary shares provisionally awarded to each director as a participant under the Long Term Incentive Plan, are as follows:

| Name         | 1 January 2001 | Grants/awards during 2001 | 31 December 2001 |
|--------------|----------------|---------------------------|------------------|
| F M Caldwell | 9,590          | -                         | 9,590            |

Full details of the Long Term Incentive Plan are disclosed in the directors' report of Lex Service PLC.

The middle market price of the shares at 31 December 2001 was 524p and the range during 2001 was 377.5p - 612.5p.

**Directors' responsibilities**

A statement of directors' responsibilities is set out on page 5.

**Directors and Officers Liability Insurance**

During the year the company purchased and maintained liability insurance for its Directors and Officers as permitted by section 310(3) of the Companies Act 1985.

**Auditor**

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditor of the company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board

A handwritten signature in black ink, appearing to read 'P M Coles', is written over a horizontal line.

P M Coles  
Secretary

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company, and of the profit or loss of the company for that period. In preparing those 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 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.

# Report of the Independent Auditor To the Members of RAC Insurance Limited

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We have audited the financial statements on pages 7 to 13.

## Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 5, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by 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 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 with the company is not disclosed.

## 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.

## Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor

8 Salisbury Square  
London  
EC4Y 8BB

25 April 2002

Profit and Loss Account 7  
 Technical Account - General Business  
 For the year ended 31 December 2001

|   | Notes | 2001<br>£           | 2000<br>£           |
|---|-------|---------------------|---------------------|
| <b>TECHNICAL ACCOUNT - GENERAL BUSINESS</b>                                       |       |                     |                     |
| Earned premiums, net of reinsurance   |       |                     |                     |
| Gross premiums written  | 2     | 23,095,915          | 21,644,825          |
| Outwards reinsurance premiums   |       | <u>(6,191,517)</u>  | <u>(5,765,173)</u>  |
| Net premium written   |       | 16,904,398          | 15,879,652          |
| Change in the gross provision for unearned premiums                               |       | (534,496)           | 983,842             |
| Change in provision for unearned premiums, reinsurers' share                      |       | <u>0</u>            | <u>0</u>            |
| Change in the net provision for unearned premiums                                 |       | <u>(534,496)</u>    | <u>983,842</u>      |
| Earned premiums, net of reinsurance   |       | 16,369,902          | 16,863,494          |
| <b>Total technical income</b><br><b>(all derived from continuing operations)</b>  |       | <u>16,369,902</u>   | <u>16,863,494</u>   |
| Claims incurred, net of reinsurance   |       |                     |                     |
| Claims paid:  |       |                     |                     |
| - gross amount  |       | 11,488,467          | 9,200,706           |
| - reinsurers' share   |       | <u>(2,833,527)</u>  | <u>(2,169,233)</u>  |
| - net of reinsurance  |       | <u>8,654,940</u>    | <u>7,031,473</u>    |
| Change in the provision for claims:   |       |                     |                     |
| - gross amount  |       | (244,952)           | 654,058             |
| - reinsurers' share   |       | <u>0</u>            | <u>0</u>            |
| - net of reinsurance  |       | <u>(244,952)</u>    | <u>654,058</u>      |
| Claims incurred, net of reinsurance   |       | (8,409,988)         | (7,685,531)         |
| Net operating expenses  | 3     | (5,103,934)         | (4,358,079)         |
| <b>Total technical charges</b><br><b>(all derived from continuing operations)</b> |       | <u>(13,513,922)</u> | <u>(12,043,610)</u> |
| <b>Balance on the technical account for general business</b>                      |       | <u>2,855,980</u>    | <u>4,819,884</u>    |



**Profit and Loss Account**  
**Non-technical account**  
**For the year ended 31 December 2001**

**8**

|  |       | <b>2001</b>        | <i>Restated (note 13)</i><br><b>2000</b> |
|--|-------|--------------------|--|
|  | Notes | £                  | £  |
| <b>Balance on the general business technical account</b> |       | <b>2,855,980</b>   | 4,819,884                                |
| Investment income  | 4     | <b>666,783</b>     | 684,639                                  |
| Unrealised gains/(losses)                                |       | <b>25,516</b>      | 258,318                                  |
| <b>Profit on ordinary activities before taxation</b>     |       | <b>3,548,279</b>   | 5,762,841                                |
| Taxation charge  | 5     | <b>(1,064,393)</b> | (1,733,995)                              |
| <b>Retained profit for the year</b>                      |       | <b>2,483,886</b>   | 4,028,846                                |

All amounts relate to continuing activities.

The notes on pages 11 to 13 form part of these financial statements.

# Balance Sheet

## At 31 December 2001

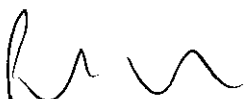
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*Restated (note 13)*

|  | Notes | 2001<br>£         | 2000<br>£         |
|--|-------|-------------------|-------------------|
| <b>ASSETS</b>                                      |       |                   |                   |
| <b>Investments</b>                                 |       |                   |                   |
| Other financial investments                        | 6     | 13,340,790        | 12,969,432        |
| <b>Debtors</b>                                     |       |                   |                   |
| Debtors arising out of reinsurance operations      |       | 111,960           | 85,710            |
| Other debtors - group undertakings                 |       | 1,898             | 1,898             |
| Debtors arising out of direct insurance generation |       | 16,042,737        | 13,986,243        |
|  |       | <u>16,156,595</u> | <u>14,073,851</u> |
| <b>Other assets</b>                                |       |                   |                   |
| Cash at bank and in hand                           |       | 307,754           | 218               |
| <b>Prepayments and accrued income</b>              |       |                   |                   |
| Accrued interest                                   |       | 115,737           | 102,332           |
| Deferred acquisition expenses                      |       | 1,259,376         | 1,285,622         |
|  |       | <u>1,375,113</u>  | <u>1,387,954</u>  |
| <b>TOTAL ASSETS</b>                                |       | <u>31,180,252</u> | <u>28,431,455</u> |
| <b>LIABILITIES</b>                                 |       |                   |                   |
| <b>Capital and reserves - equity</b>               |       |                   |                   |
| Share capital                                      | 7     | 5,500,000         | 5,500,000         |
| Profit and loss account                            | 8     | 9,668,409         | 7,184,523         |
| Shareholders' funds                                |       | <u>15,168,409</u> | <u>12,684,523</u> |
| <b>Technical provisions</b>                        |       |                   |                   |
| Provision for unearned premiums                    |       | 9,664,591         | 9,025,493         |
| Claims outstanding                                 |       | 1,182,572         | 1,427,524         |
|  |       | <u>10,847,163</u> | <u>10,453,017</u> |
| <b>Creditors</b>                                   |       |                   |                   |
| Other creditors including taxation                 | 9     | 5,164,680         | 5,293,915         |
| <b>TOTAL LIABILITIES</b>                           |       | <u>31,180,252</u> | <u>28,431,455</u> |

The notes on pages 11 to 13 form part of these financial statements.

The financial statements were approved by the Board on 25th April, 2002.



P W Hewitt  
Director

Statement of total recognised gains and losses **10**  
At 31 December 2001

|  | 2001<br>£        | 2000<br>£        |
|--|------------------|------------------|
| Profit for the financial year and total recognised gains and losses relating to the year | 2,483,886        | 4,028,846        |
| Prior year adjustment (as explained in note 13)  | (251,856)        | 0                |
| Total recognised gains and losses since last annual report                               | <u>2,232,030</u> | <u>4,028,846</u> |

## 1 Accounting policies

The financial statements have been prepared in accordance with the provisions of Section 255A of, and Schedule 9A to, the Companies Act 1985. They have been prepared under the historical cost convention and in accordance with applicable accounting standards which have been applied consistently except that the Group has adopted FRS 18 Accounting Policies and FRS 19 Deferred Taxation during the year which have not had a material impact.

The company has taken advantage of the exemption conferred by Financial Reporting Standard No 1, "Cashflow Statements", not to produce a cashflow statement as it is a wholly owned subsidiary. A group cashflow statement is included in the financial statements of Lex Service PLC.

The company has taken advantage of the exemption within FRS8: Related Party Transactions, for wholly owned subsidiary undertakings, not to disclose transactions with other entities within the same group.

### Standard accounting practice

The accounts comply with applicable accounting standards 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.

Unearned Premiums - which represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis.

Acquisition Costs - which represent commission and other related expenses, are deferred over the period in which the related premiums are earned.

Investments - all investments are now stated at market value following a change of accounting policy. Prior year comparatives have been restated accordingly (see note 13).

Deferred Taxation - The company provides deferred taxation using the liability method in respect of all short-term timing differences and all other material timing differences to the extent that it is probable that a liability will crystallise.

Claims Outstanding and Claims Incurred but not Reported - The company establishes its provision for outstanding claims and incurred but not reported claims based on the number of reported incidents which are outstanding at the year end, multiplied by an average cost of claim.

## 2 Segmental analysis

|                         | Gross<br>premiums<br>written | Gross<br>premiums<br>earned | Gross<br>claims<br>incurred | Gross<br>operating<br>expenses | Reinsurance<br>balance | Balance on<br>technical<br>account |
|-------------------------|------------------------------|-----------------------------|-----------------------------|--------------------------------|------------------------|------------------------------------|
|                         | 2001                         | 2001                        | 2001                        | 2001                           | 2001                   | 2001                               |
|                         | £                            | £                           | £                           | £                              | £                      | £                                  |
| <b>Direct Insurance</b> |                              |                             |                             |                                |                        |                                    |
| Legal expenses          | 6,849,131                    | 6,457,557                   | (2,909,636)                 | (2,080,572)                    | -                      | 1,467,349                          |
| Assistance              | 15,237,502                   | 15,033,258                  | (7,868,318)                 | (2,460,568)                    | (3,357,990)            | 1,346,382                          |
| Miscellaneous           | 1,009,282                    | 1,070,604                   | (465,561)                   | (562,794)                      | -                      | 42,249                             |
|                         | <b>23,095,915</b>            | <b>22,561,419</b>           | <b>(11,243,515)</b>         | <b>(5,103,934)</b>             | <b>(3,357,990)</b>     | <b>2,855,980</b>                   |
|                         |                              |                             |                             |                                |                        |                                    |
|                         | 2000                         | 2000                        | 2000                        | 2000                           | 2000                   | 2000                               |
|                         | £                            | £                           | £                           | £                              | £                      | £                                  |
| <b>Direct Insurance</b> |                              |                             |                             |                                |                        |                                    |
| Legal expenses          | 6,297,186                    | 6,904,901                   | (2,438,987)                 | (2,219,192)                    | -                      | 2,246,722                          |
| Assistance              | 14,065,985                   | 14,844,771                  | (7,184,080)                 | (1,670,672)                    | (3,595,940)            | 2,394,079                          |
| Miscellaneous           | 1,281,654                    | 878,995                     | (231,697)                   | (468,215)                      | -                      | 179,083                            |
|                         | <b>21,644,825</b>            | <b>22,628,667</b>           | <b>(9,854,764)</b>          | <b>(4,358,079)</b>             | <b>(3,595,940)</b>     | <b>4,819,884</b>                   |

The directors have omitted segmental disclosures as are required by Statement of Standard Accounting Practice 25 as in their opinion such disclosure would be prejudicial to the company's business.

All premiums derive from business written in the United Kingdom.

Notes to the Financial Statements  
For the year ended 31 December 2001

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|                                      | 2001<br>£          | 2000<br>£          |
|--------------------------------------|--------------------|--------------------|
| <b>3 Net operating expenses</b>      |                    |                    |
| Commission                           | (4,235,405)        | (4,251,282)        |
| Change in deferred acquisition costs | (26,246)           | 210,687            |
| Claims handling costs                | (745,185)          | (1,035,819)        |
| Management expenses                  | (828,000)          | (828,000)          |
| Ceding commission (2%)               | 120,484            | 112,180            |
| Profit participation                 | 650,418            | 1,466,155          |
| Auditor's remuneration               | (16,250)           | (14,000)           |
| DTI fee                              | (23,750)           | (18,000)           |
|                                      | <u>(5,103,934)</u> | <u>(4,358,079)</u> |

No Director received any remuneration as a director of the company for the year (2000: £Nil).

All employees of the company are also employees of RAC Motoring Services. Their staff costs have therefore been included within that company.

|                            |                |                |
|----------------------------|----------------|----------------|
| <b>4 Investment income</b> |                |                |
| Interest receivable        | <u>666,783</u> | <u>684,639</u> |

|  |                  |                              |
|--|------------------|------------------------------|
| <b>5 Taxation charge</b>                               | 2001<br>£        | 2000<br><i>Restated</i><br>£ |
| United Kingdom corporation tax charge (30%)            | 1,064,393        | 1,656,500                    |
| Taxation in respect of prior year adjustment (note 13) | 0                | 77,495                       |
|  | <u>1,064,393</u> | <u>1,733,995</u>             |

|   |                   |                   |
|---|-------------------|-------------------|
| <b>6 Investments</b>                              |                   |                   |
| <b>Market value</b>                               |                   |                   |
| Debt securities and other fixed income securities | 13,340,790        | 12,669,924        |
| Deposits with credit institutions                 | -                 | 299,508           |
| <b>At end of year</b>                             | <u>13,340,790</u> | <u>12,969,432</u> |

|                            |                   |                   |  |                  |
|----------------------------|-------------------|-------------------|--|------------------|
| <b>7 Share capital</b>     |                   |                   |  |                  |
|                            | <b>Authorised</b> |                   | <b>Allotted, called up, and<br/>fully paid</b> |                  |
|                            | 2001<br>£         | 2000<br>£         | 2001<br>£                                      | 2000<br>£        |
| Ordinary shares of £1 each | <u>10,000,000</u> | <u>10,000,000</u> | <u>5,500,000</u>                               | <u>5,500,000</u> |

Notes to the Financial Statements  
For the year ended 31 December 2001

13

|   | 2001              | 2000              |
|---|-------------------|-------------------|
|   | £                 | £                 |
| <b>8 Profit and loss account</b>  |                   |                   |
| At beginning of year  |                   |                   |
| As previously stated  | 7,184,523         | 3,588,356         |
| Prior year adjustment (note 13)   | <u>0</u>          | <u>(432,679)</u>  |
|   | 7,184,523         | 3,155,677         |
| Profit for the year   | 2,483,886         | 4,028,846         |
|   | <u>9,668,409</u>  | <u>7,184,523</u>  |
| At end of year  |                   |                   |
| <b>9 Creditors</b>  |                   |                   |
| <b>Other creditors including taxation and social security</b>                       |                   |                   |
| Amounts owed to group undertakings  | 4,167,286         | 2,806,106         |
| Corporation tax (adjusted for taxation on prior year adjustment - Note 13)          | 956,454           | 2,455,809         |
| Other creditors   | <u>40,940</u>     | <u>32,000</u>     |
|   | 5,164,680         | 5,293,915         |
| <b>10 Deferred taxation</b>   |                   |                   |
| No deferred taxation has been provided as no material timing difference has arisen. |                   |                   |
| <b>11 Reconciliation of movements in shareholders' funds</b>                        |                   |                   |
| Profit for the year   | 2,483,886         | 4,028,846         |
| Opening shareholders' funds   |                   |                   |
| As previously stated  | 12,684,523        | 9,088,356         |
| Prior year adjustment   | <u>0</u>          | <u>(432,679)</u>  |
| As restated   | 12,684,523        | 8,655,677         |
|   | <u>15,168,409</u> | <u>12,684,523</u> |
| Closing shareholders' funds   |                   |                   |
| <b>12 Parent company</b>  |                   |                   |

The ultimate parent company at 31 December 2001 was Lex Service PLC, a company registered in England and Wales.

Copies of the accounts of Lex Service PLC are available from the Company Secretary, Lex House, 17 Connaught Place, London, W2 2EL.

**13 Prior year adjustment**

The prior year adjustment arises due to a change in accounting policy. Investments are now stated at market value.

The effect of the restatement is to reduce cumulative reserves by £251,856 after tax. Reserves for 2000 were increased by £180,823 and cumulative reserves for 1999 and prior were reduced by £432,679.

The comparative figures for 2000 have been restated, resulting in an increase in the profit before tax of £258,318.