

RAC Insurance Limited
Report and Financial Statements
Year ended 31 December 2000

Registered Number: 2355834



RAC Insurance Limited

Annual report and financial statements for the year ended 31 December 2000

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-

| | |
|-----------|---|
| Directors | P W Hewitt |
| | T J Beswick |
| | M L Young (Resigned 22 May 2000) |
| | F M Caldwell (Appointed 29 February 2000) |
| | H M Posner (Appointed 29 February 2000) |

| | |
|-----------|----------------------------------|
| Secretary | P Coles (Appointed 22 May 2000) |
| | M L Young (Resigned 22 May 2000) |

| | |
|-------------------|---------------|
| Registered office | RAC House |
| | 1 Forest Road |
| | Feltham |
| | TW13 7RR |

| | |
|-------------|---------|
| Company no. | 2355834 |
|-------------|---------|

| | |
|----------|--------------------|
| Auditors | KPMG Audit Plc |
| | 8 Salisbury Square |
| | London |
| | EC4Y 8BB |

The directors present their report and the audited financial statements for the year ended 31 December 2000

Results, trading review and dividends

The profit and loss account is set out on pages 3 and 4 and shows the profit for the year. The directors are satisfied with the result.

No dividend was paid during the year (1999 £0).

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.

There have been no events since the balance sheet date which materially affect the position of the company.

Directors

The directors listed served the company during the year.

P W Hewitt F Caldwell M L Young
T J Beswick H M Posher

None of the directors have any beneficial interest in the share capital of the company. Their interests in the share capital of the ultimate parent, Lex Service, are the following:

| | At 1 January 2000 | At 31 December 2000 |
|--------------|-------------------|---------------------|
| P W Hewitt | 16646 | 40110 |
| T J Beswick | 2000 | 0 |
| F M Caldwell | 12000 | 12000 |

Details of the share options held and granted for T J Beswick can be found in the financial statements of RAC Motoring Services, and those for P W Hewitt can be found in the financial statements of Lex Service PLC. See note 3 of the accounts for other share option information.

Directors' responsibilities

A statement of directors' responsibilities is set out on page 2.

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.



By Order of the Board

P 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 are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Profit and Loss Account **3**

Technical Account - General Business
For the year ended 31 December 2000

| | Notes | 2000 £ | 1999 £ |
|--|-------|--------------------|--------------------|
| TECHNICAL ACCOUNT - GENERAL BUSINESS | | | |
| Earned premiums, net of reinsurance | | | |
| Gross premiums written | 2 | 21,644,825 | 20,145,329 |
| Outwards reinsurance premiums | | <u>-5,765,173</u> | <u>-6,401,179</u> |
| Net premium written | | 15,879,652 | 13,744,150 |
| Change in the gross provision for unearned premiums | | 983,842 | -75,812 |
| Change in provision for unearned premiums, reinsurers' share | | <u>-</u> | <u>-</u> |
| Change in the net provision for unearned premiums | | <u>983,842</u> | <u>-75,812</u> |
| Earned premiums, net of reinsurance | | 16,863,494 | 13,668,338 |
| Total technical income | | <u>16,863,494</u> | <u>13,668,338</u> |
| (all derived from continuing operations) | | | |
| Claims incurred, net of reinsurance | | | |
| Claims paid: | | | |
| - gross amount | | 9,200,706 | 9,149,045 |
| - reinsurers' share | | <u>-2,169,233</u> | <u>-2,129,481</u> |
| - net of reinsurance | | <u>7,031,473</u> | <u>7,019,564</u> |
| Change in the provision for claims- gross amount | | 654,058 | 308,705 |
| - reinsurers' share | | <u>-</u> | <u>-</u> |
| - net of reinsurance | | <u>654,058</u> | <u>308,705</u> |
| Claims incurred, net of reinsurance | | -7,685,531 | -7,328,269 |
| Net operating expenses | 3 | <u>-4,358,079</u> | <u>-4,170,677</u> |
| Total technical charges | | <u>-12,043,610</u> | <u>-11,498,946</u> |
| (all derived from continuing operations) | | | |
| Balance on the technical account for general business | | <u>4,819,884</u> | <u>2,169,392</u> |

Profit and Loss Account
Non-technical account
For the year ended 31 December 2000

4

| | | 2000 | Restated 1999 |
|--|-------|-------------------|------------------|
| | Notes | £ | £ |
| Balance on the general business technical account | | 4,819,884 | 2,169,392 |
| Investment income | 4 | 684,639 | 754,829 |
| Profit on ordinary activities before taxation | | 5,504,523 | 2,924,221 |
| Taxation charge | 5 | -1,656,500 | -911,355 |
| Retained profit for the year | | 3,848,023 | 2,012,866 |

All amounts relate to continuing activities.

All recognised gains and losses are included in the profit and loss account for the year.

The notes on pages 6 to 8 form part of these financial statements.

Balance Sheet 5

At 31 December 2000

| | Notes | 2000 £ | 1999 £ |
|--|-------|------------------|------------------|
| ASSETS | | | |
| Investments | | | |
| Other financial investments | 6 | 13,329,227 | 12,636,274 |
| Debtors | | | |
| Debtors arising out of reinsurance operations | | 85,710 | 35,628 |
| Other debtors - group undertakings | | 1,898 | 1,898 |
| Debtors arising out of direct insurance generation | | 13,986,243 | 9,151,095 |
| | | <hr/> 14,073,851 | <hr/> 9,188,621 |
| Other assets | | | |
| Cash at bank and in hand | | 218 | 218 |
| Prepayments and accrued income | | | |
| Accrued interest | | 102,332 | 110,645 |
| Deferred acquisition expenses | | 1,285,622 | 1,074,935 |
| | | <hr/> 1,387,954 | <hr/> 1,185,580 |
| TOTAL ASSETS | | <hr/> 28,791,250 | <hr/> 23,010,693 |
| LIABILITIES | | | |
| Capital and reserves - equity | | | |
| Share capital | 7 | 5,500,000 | 5,500,000 |
| Profit and loss account | 8 | 7,436,379 | 3,588,356 |
| Shareholders' funds | | <hr/> 12,936,379 | <hr/> 9,088,356 |
| Technical provisions | | | |
| Provision for unearned premiums | | 9,025,493 | 10,019,325 |
| Claims outstanding | | 1,427,524 | 774,405 |
| | | <hr/> 10,453,017 | <hr/> 10,793,730 |
| Creditors | | | |
| Other creditors including taxation | 9 | 5,401,854 | 3,128,607 |
| TOTAL LIABILITIES | | <hr/> 28,791,250 | <hr/> 23,010,693 |

The notes on pages 6 to 8 form part of these financial statements.

The financial statements were approved by the Board on



T J Beswick
Director

1 Accounting policies

Disclosure requirements

The financial statements have been prepared in accordance with the provisions of Section 255A of, and Schedule 9A to, the Companies Act 1985. The company is exempt from the requirement to prepare a cash flow under FRS 1 by virtue of being a wholly owned subsidiary for which consolidated accounts are publically available.

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.

Other than the restatement of investment income and the tax charge to comply with FRS 16, there have been no changes in the accounting policies during the year. The impact of adopting FRS 16 reduced investment income and tax charge by £21,831 (1999 - £113,628).

The following policies have been adopted :

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 stated at cost.

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.

2 Segmental analysis

| | Gross premiums written 2000 £ | Gross premiums earned 2000 £ | Gross claims incurred 2000 £ | Gross operating expenses 2000 £ | Reinsurance balance 2000 £ | Balance on technical account 2000 £ |
|-------------------------|---|--|--|---|-------------------------------------|---|
| Direct Insurance | | | | | | |
| 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 |
| | 21,644,825 | 22,628,667 | -9,854,764 | -4,358,079 | -3,595,940 | 4,819,884 |
| <hr/> | | | | | | |
| | 1999 £ | 1999 £ | 1999 £ | 1999 £ | 1999 £ | 1999 £ |
| Direct Insurance | | | | | | |
| Legal expenses | 5,546,963 | 5,179,062 | -2,409,000 | -2,266,424 | - | 503,638 |
| Assistance | 14,046,251 | 14,440,551 | -6,914,125 | -1,680,130 | -4,271,698 | 1,574,598 |
| Miscellaneous | 552,115 | 449,904 | -134,625 | -224,123 | - | 91,156 |
| | 20,145,329 | 20,069,517 | -9,457,750 | -4,170,677 | -4,271,698 | 2,169,392 |

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

All premiums derive from business written in the United Kingdom.

Notes to the Financial Statements 7

For the year ended 31 December 2000

3 Net operating expenses

| | | |
|--------------------------------------|------------|------------|
| Commission | -4,251,282 | -3,674,017 |
| Change in deferred acquisition costs | 210,687 | -267,843 |
| Claims handling costs | -1,035,819 | -1,426,349 |
| Management expenses | -828,000 | -828,000 |
| Ceding commission (2%) | 112,180 | 120,383 |
| Profit participation | 1,466,155 | 1,936,439 |
| Audit remuneration | -14,000 | -13,440 |
| DTI fee | -18,000 | -17,850 |
| | -4,358,079 | -4,170,677 |

No Director received any remuneration as a director of the company for the year. (1999: £Nil)

F M Caldwell was granted 9590 share options during the year at a price of 391p. The exercise of these options in the future is governed by performance on various criteria. The closing middle market share price at 29 December 2000 was 402p and the range during 2000 was 290p - 436.5p per share.

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

4 Investment income

| | | |
|---------------------|---------|---------|
| Interest receivable | 684,639 | 754,829 |
|---------------------|---------|---------|

5 Taxation charge

| | | |
|---|-----------|---------|
| United Kingdom corporation tax charge (30%) | 1,656,500 | 911,355 |
| | 1,656,500 | 911,355 |

6 Investments

Other investments

| | | |
|---|------------|------------|
| Debt securities and other fixed income securities | 13,029,719 | 12,353,742 |
| Deposits with credit institutions | 299,508 | 282,532 |

| | | |
|----------------|------------|------------|
| At end of year | 13,329,227 | 12,636,274 |
|----------------|------------|------------|

| | | |
|---|------------|------------|
| Market Value of the debt securities and other fixed investment securities | 12,763,828 | 11,822,390 |
|---|------------|------------|

7 Share capital

| | Authorised | | Allotted, called up, and fully paid | |
|----------------------------|------------|------------|--|-----------|
| | 2000 | 1999 | 2000 | 1999 |
| | £ | £ | £ | £ |
| Ordinary shares of £1 each | 10,000,000 | 10,000,000 | 5,500,000 | 5,500,000 |

Notes to the Financial Statements 8

For the year ended 31 December 2000

| | 2000 | 1999 |
|----------------------------------|-----------|-----------|
| | £ | £ |
| 8 Profit and loss account | | |
| At beginning of year | 3,588,356 | 1,575,490 |
| Profit for the year | 3,848,023 | 2,012,866 |
| At end of year | 7,436,379 | 3,588,356 |

9 Creditors

Other creditors including taxation and social security

| | | |
|------------------------------------|-----------|-----------|
| Amounts owed to group undertakings | 2,806,106 | 2,190,069 |
| Corporation tax | 2,563,748 | 907,248 |
| Other creditors | 32,000 | 31,290 |
| | 5,401,854 | 3,128,607 |

10 Deferred taxation

No deferred taxation has been provided as no material timing difference has arisen.

11 Reconciliation of movements in shareholders' funds

| | | |
|-----------------------------|------------|-----------|
| Profit for the year | 3,848,023 | 2,012,866 |
| Opening shareholders' funds | 9,088,356 | 7,075,490 |
| Closing shareholders' funds | 12,936,379 | 9,088,356 |

12 Cash flow statement

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

13 Parent company

The immediate and ultimate parent companies at 31 December 2000 were RAC Investments and Lex Service Plc respectively both of which are registered in England.

Lex Service is the only company in which the results of RAC Insurance are consolidated.

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 as the accounts of the company's parent undertaking, Lex Service PLC, are available from the Company Secretary, Lex House, Boston Drive, Bourne End, Bucks.

Report of the Auditor
To the Shareholders of RAC Insurance Limited

9

We have audited the financial statements on pages 3 to 8.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, 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.

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 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 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

29 June 2001

KPMG Audit Plc
8, Salisbury Square, London
Chartered Accountants
Registered Auditor