

RAC Insurance Limited
Report and Financial Statements
Year ended 31 December 1999

Registered Number: 2355834



RAC Insurance Limited

Annual report and financial statements for the year ended 31 December 1999

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Directors	P W Hewitt	(Appointed	31 July 1999)
	T J Beswick	(Appointed	31 July 1999)
	M L Young	(Appointed	31 July 1999)
	N A Johnson	(Resigned	11 August 1999)
	A Miller	(Resigned	11 August 1999)
	M McCarthy	(Resigned	4 June 1999)
	I Mavor	(Resigned	11 August 1999)

Secretary	I Mavor	(Resigned	11 August 1999)
	M L Young	(Appointed	31 July 1999)

Registered office	RAC House
	1 Forest Road
	Feltham
	TW13 7RR

Company no.	2355834
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Auditors	PricewaterhouseCoopers
	Southwark Towers
	32 London Bridge Street
	London
	SE1 9SY

The directors present their report and the audited financial statements for the year ended 31 December 1999.

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 (1998 £3,000,000).

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
T J Beswick
M L Young
N A Johnson
A Miller
M McCarthy
I Mavor

None of the directors have any beneficial interest in the share capital of the company.

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.

Year 2000

The Year 2000 problem arose because some computer systems and micro-processor controlled devices only recognised the last two digits of a year and consequently were unable to attribute 00 as the year 2000. As a result, some systems may have processed data incorrectly or shut down altogether.

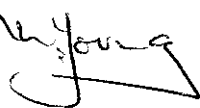
In recognition of the serious implications of the millennium date change, the RAC Holding Group undertook a Year 2000 programme. The Year 2000 programme included all RAC Holdings Group companies and business units and followed a well established project management process.

The project is now complete and the new millennium date change passed without any major problems. There was no adverse effect on the Group's operational or financial results, nor was there any effect from third parties inability to manage Year 2000 related issues. Provision has been made to monitor other Year 2000 issues during the year, such as the effect of February 29. The Group is confident that these issues will have no adverse effect on the Group's operations.

The Group has spent £4.0 million on the Year 2000 programme to date. Current estimates to complete the project are for a further spend of £0.2 million.

By Order of the Board

M L Young
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
Non-technical account
For the year ended 31 December 1999

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		1999	1998
	Notes	£	£
Balance on the general business technical account		2,169,392	3,148,947
Investment income	4	868,457	1,369,181
Investment Charges		-	(17,000)
Profit on ordinary activities before taxation		3,037,849	4,501,128
Taxation charge	5	(1,024,983)	(1,154,397)
Profit on ordinary activities after taxation		2,012,866	3,346,731
Dividends	6	-	(3,000,000)
Retained profit/(loss) for the year		2,012,866	346,731

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.

Profit and Loss Account
Technical Account - General Business
For the year ended 31 December 1999

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	Notes	1999 £	1998 £
TECHNICAL ACCOUNT - GENERAL BUSINESS			
Earned premiums, net of reinsurance			
Gross premiums written		20,145,329	21,416,812
Outwards reinsurance premiums		(6,401,179)	(6,765,526)
Net premium written		13,744,150	14,651,286
Change in the gross provision for unearned premiums		(75,812)	(849,713)
Change in provision for unearned premiums, reinsurers share		-	-
Change in the net provision for unearned premiums		(75,812)	(849,713)
Earned premiums, net of reinsurance	2	13,668,338	13,801,573
Total technical income (all derived from continuing operations)		13,668,338	13,801,573
Claims incurred, net of reinsurance			
Claims paid:			
- gross amount		9,149,045	8,909,088
- reinsurers' share		(2,129,481)	(1,884,000)
- net of reinsurance		7,019,564	7,025,088
Change in the provision for claims:- gross amount		308,705	(125,249)
- reinsurers' share		-	-
- net of reinsurance		308,705	(125,249)
Claims incurred, net of reinsurance		(7,328,269)	(6,899,839)
Net operating expenses	3	(4,170,677)	(3,752,787)
Total technical charges (all derived from continuing operations)		(11,498,946)	(10,652,626)
Balance on the technical account for general business		2,169,392	3,148,947

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

Balance Sheet 5 At 31 December 1999

	Notes	1999 £	1998 £
ASSETS			
Investments			
Other financial investments	7	12,636,274	12,755,234
Debtors			
Debtors arising out of reinsurance operations		35,628	20,920
Other debtors - group undertakings		1,898	1,898
Debtors arising out of direct insurance generation		9,151,095	6,706,500
		<hr/> 9,188,621	<hr/> 6,729,318
Other assets			
Cash at bank and in hand		218	250
Prepayments and accrued income			
Accrued interest		110,645	236,856
Deferred acquisition expenses		1,074,935	1,301,835
		<hr/> 1,185,580	<hr/> 1,538,691
TOTAL ASSETS		<hr/> 23,010,693	<hr/> 21,023,493
LIABILITIES			
Capital and reserves - equity			
Share capital	8	5,500,000	5,500,000
Profit and loss account	9	3,588,356	1,575,490
Shareholders' funds		<hr/> 9,088,356	<hr/> 7,075,490
Technical provisions			
Claims outstanding		774,405	464,761
Provision for unearned premiums		10,019,325	9,965,837
		<hr/> 10,793,730	<hr/> 10,430,598
Creditors			
Other creditors including taxation	10	3,128,607	3,517,405
TOTAL LIABILITIES		<hr/> 23,010,693	<hr/> 21,023,493

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

T J Beswick
18 May 2000

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 1998.

There have been no changes in the accounting policies during the year. 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	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Balance on technical account
	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	(6,995,125)	(1,599,130)	(4,271,698)	1,574,598
Miscellaneous	552,115	449,904	(134,625)	(224,123)	-	91,156
	20,145,329	20,069,517	(9,538,750)	(4,089,677)	(4,271,698)	2,169,392
<hr/>						
	1998	1998	1998	1998	1998	1998
	£	£	£	£	£	£
Direct Insurance						
Legal expenses	6,176,154	5,804,957	(1,998,000)	(3,035,900)	-	771,057
Assistance	14,821,271	14,406,623	(6,661,293)	(538,695)	(4,881,526)	2,325,109
Miscellaneous	419,387	355,519	(124,546)	(178,192)	-	52,781
	21,416,812	20,567,099	(8,783,839)	(3,752,787)	(4,881,526)	3,148,947

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
For the year ended 31 December 1999

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	1999	1998
	£	£
3 Net Operating expenses		
Commission	(3,674,017)	(4,431,165)
Change in deferred acquisition costs	(267,843)	(84,031)
Claims handling costs	(1,426,349)	(1,493,196)
Management expenses	(828,000)	(828,000)
Ceding commission (2%)	120,383	132,000
Profit participation	1,936,439	2,966,005
Audit remuneration	(13,440)	(14,400)
DTI fee	(17,850)	(17,000)
	<u>(4,170,677)</u>	<u>(3,769,787)</u>

No Director received any remuneration as a director of the company for the year. (1998: £Nil)

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	<u>868,457</u>	<u>1,369,181</u>

5 Taxation charge		
United Kingdom corporation tax charge	911,355	1,299,796
Under/(over) provision relating to prior years	-	(145,399)
Taxation attributable to franked investment income	113,628	-
	<u>1,024,983</u>	<u>1,154,397</u>

6 Dividends		
Dividend paid	-	2,000,000
Dividend proposed	-	1,000,000
	<u>-</u>	<u>3,000,000</u>

7 Investments		
Other investments		
Debt securities and other fixed income securities	12,353,742	12,486,135
Deposits with credit institutions	282,532	269,099
	<u>12,636,274</u>	<u>12,755,234</u>
At end of year		
	<u>12,636,274</u>	<u>12,755,234</u>
Market Value of the debt securities and other fixed investment securities	<u>12,105,140</u>	<u>12,911,234</u>

8 Share capital				
	Authorised		Allotted, called up, and fully paid	
	1999	1998	1999	1998
	£	£	£	£
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 1999

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	1999	1998
	£	£
9 Profit and loss account		
At beginning of year	1,575,490	1,228,759
Profit/(loss) for the year	2,012,866	346,731
At end of year	3,588,356	1,575,490
10 Creditors		
Other creditors including taxation and social security		
Amounts owed to group undertakings	2,190,069	1,186,209
Corporation tax	907,248	1,299,796
Other creditors	31,290	31,400
Dividends payable	-	1,000,000
	3,128,607	3,517,405
11 Deferred taxation		
No deferred taxation has been provided as no material timing difference has arisen		
12 Reconciliation of movements in shareholders' funds		
Profit/(loss) for the year	2,012,866	346,731
Opening shareholders' funds	7,075,490	6,728,759
Closing shareholders' funds	9,088,356	7,075,490

13 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.

14 Parent company

The ultimate parent company at 31 December 1999 was LEX Service PLC, a company registered in England.

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.

We have audited the financial statements on pages 3 to 8 which have been prepared under the historical cost convention and the accounting policies set out on page 6.

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 audit opinion

We conducted our work in accordance with Practice Note 20 The audit of insurers in the United Kingdom issued by the Auditing Practices Board. Our work included examination, on a test basis, of evidence relevant to the amounts and disclosures in the Forms and statements. The evidence included that previously obtained by us relating to the audit of the financial statements of the company for the financial year on which we reported on 31 December 1999. It also included an assessment of the significant estimates and judgements made by the company in preparation of the Forms and 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 1999 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors
London

15th May 2000