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Highway Insurance Holdings Plc

ANNUAL REPORT 2002

Highway Insurance

Financial Results 2002

	2002	2001
Operating profit* from continuing operations before amortisation costs	**£21.4 million**	£9.2 million
Operating profit*	**£15.9 million**	£12.6 million
Operating ratio on continuing operations	**93.7%**	102.9%
Profit before tax and exceptional items	**£13.5 million**	£10.5 million
Earnings per share – continuing business before exceptional items	**6.9p**	3.4p
Final dividend	**1.68p**	1.60p
Full year dividend	**2.48p**	2.40p

Highlights

- Highway has outperformed the UK motor insurance market
- Operating ratio on continuing operations of 93.7% (2001: 102.9%)
- Operating profit* up from £12.6 million to £15.9 million
- Expense ratio reduced to 21.1% (2001: 24.9%) compared with the latest published market expense ratio of 27.8%
- Positive investment returns despite falling market
- Exit from Lloyd's and initial FSA close supervisory period completed
- General trading conditions remain positive
- 2003 gross premium limit increased by 22% to £320 million
- Appointment of Richard Gamble and David Barker as Non-Executive Directors
- Proposed final dividend increased by 5% to 1.68p per share (2001: 1.6p)

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Financial Calendar

• Ex-dividend date for 2002 final dividend	16 April 2003
• Record date for 2002 final dividend	22 April 2003
• Annual General Meeting	21 May 2003
• Payment of final dividend	11 June 2003
• Interim results announcement for the six months to 30 June 2003	September 2003

When I took over the Chairmanship in July last year we constructed a plan to ensure that 2002 would become a watershed in the fortunes of Highway's shareholders. The plan contained both top-down and bottom-up components. Our top-down approach took in our withdrawal from Lloyd's, our exit from New Millennium Technologies (NMT) and the closure of our former head office in Bishopsgate. It also involved the successful completion of our initial three-year FSA close supervisory period for Highway Insurance Company Limited (HighCo), together with a fundamental reassessment of how we manage our investment funds. From the bottom-up we promoted those who were actually running the business to the positions that accorded with the responsibility they discharged on the Company's behalf. The objective was to make Highway the lowest cost producer for its position on the value chain. Over the period we have introduced a simplified product range, administered through a new core processing IT system, which incorporates the transmission of data via Electronic Data Interchange (EDI).

All of these initiatives involved additional expenditure during the year, greater detail regarding which is dealt with in the CEO's Report and the Financial Review. Each one will contribute towards our ongoing policy of tightening costs, streamlining processes and improving the quality of our business model. All are steps towards Highway's basic modus operandi that aims to ally sound, yet imaginative management with the most efficient systems.

Highway enters 2003 with a business focused on UK motor insurance, administered by a FSA regulated subsidiary HighCo, and distributed through an up-rated broker network via improved product and systems. We believe we are therefore better equipped to compete, in our chosen areas of risk selection, on the principal criteria which governs the creation of the bulk of motor insurance contracts - price.

To date the Highway model has been restricted to competing solely around price. Whilst we believe that we have a competitive edge within this part of the value chain, it is also illustrative of quite how plain our product offering is and how little opportunity we have to add value to each of our sales. Moreover, we are aware that the constituency of the UK motor market may continue to change, either by consolidation or by the continuing evolution of new business models predicated with category killer instincts in mind.

At Highway we have taken the opportunity to reconsider where we could enhance our model to extend our position over the value chain. We have pursued this aim without recourse to substantial commitments regarding both capital and human resources. As a result we have developed two businesses, Highway Premium Finance (financing annual insurance premiums) and Crusader (accident management). The aim is to generate a non-risk income stream, garnered by achieving a higher degree of mutual inclusivity on the sale of a Highway motor policy with each of these two products.

In addition we have increased our investment in Elite Insurance Brokers from 30% to 75% for an outlay of £300,000. Elite is a small broker with whom we have had a close relationship for some years. It has a specialisation in motorcycles, though it carries a small book in both private car and commercial vehicles. This acquisition gives us a platform in integrated distribution, and affords us a step up the learning curve on the value chain.

Financial Results

Given the considerable changes made to the business the results we have achieved for 2002 are satisfactory. The comparatives with 2001 are not overly helpful because of the distortions that affected the pattern and levels of business written in 2002, re-organisation costs of £1.2 million charged to the profit and loss account and the change made in reducing our long-term rate of return expectations. In addition we incurred a £12.1 million write off in respect of our investment in NMT.

Nonetheless, we have made progress in underlying terms. Benefits of the additional costs incurred in 2002 will begin to contribute to increased profitability in 2003 and beyond. Accordingly we are proposing to increase our final dividend by 5% to 1.68 pence per share (2001: 1.6 pence) which is being financed entirely from reserves. This increase should not however be taken as a declaration of intent on a future progressive dividend policy. We regard the dividend as a charge on shareholders' equity, where in 2002 our proposed payment would represent a charge of 6.6% which is somewhat higher than the sector average. The dividend increase should be viewed as a reflection of our confidence in the steps taken to improve the business and to compensate those shareholders who have continued to support the business. The dividend will be payable on 11 June 2003 to shareholders on the register on 22 April 2003.

Board

With the completion of our three year close supervisory period for HighCo coinciding with our Lloyd's exit at the end of 2002, it was clear that the Boards of Highway and HighCo should have non-executives in common with each other.

We are very pleased that Judy Kellie and John Stoker, both Directors of HighCo, have recently joined the parent company board. Both have considerable insurance expertise, Judy in marketing and John in re-insurance. Each of these areas is becoming more important for us going forward. At the same time, Highway Directors, David Coleridge and Allen Thomas agreed to join the Board of HighCo.

To facilitate these changes Keith Bradley and Graham Kennedy generously agreed to step down from the Highway Board. Both had served the Company with distinction for many years and were always enormously supportive. Simultaneously Quin Lovis and Gilles Avenel resigned from the HighCo Board, having seen us through our three year FSA supervision. They all depart with my greatest thanks for their efforts on shareholders' behalf.

In addition I am delighted that Richard Gamble and David Barker have agreed to join us as Directors on both Boards. Both were formerly with Royal & Sun Alliance (RSA), Richard as CEO and David as Investment Director. It is an enormous compliment to Highway that two such experienced insurance professionals have agreed to help us in the development of the business. Richard, who has a finance background, also held senior positions at British Airways and has considerable experience in insurance broking from his days at Lowndes Lambert. David, an actuary by profession, will be of great value advising and overseeing the management of our insurance fund which today is worth some £290 million.

Lastly, we have invited Stuart Davies our Claims Director to join the parent company board. Stuart, who has a finance background has been with Highway for ten years and has operated in a variety of roles, including Finance Director of HighCo.

The Future

Looking ahead there are two key considerations that will impact on the future of our business and its profitability. The first concerns underwriting margins and investment returns, the second the possible consolidation of the UK motor insurance industry.

Over the last thirty years, high inflation has helped generate high nominal investment returns. This in turn subsidised poor underwriting practices and chronically inefficient process systems. General insurers became investment led, de-emphasising underwriting disciplines. Business was written for cash flow. While such a phenomenon persisted, profits were easily generated. However, as this trend expired and eventually reversed the pincer effect of poorer investment returns combined with operating ratios stubbornly in excess of 100% had the potential to be very painful. Short-term premium rate increases could only ameliorate this squeeze, not compensate for it.

The recent decline in shareholders' funds from insurance company balance sheets globally is estimated to exceed US $200 billion. Even allowing for the fundraisings of the past eighteen months, the industry is woefully undercapitalised compared to its position three years ago when virtually every class of premium was much cheaper.

These issues would suggest that unless expectations for future investment returns improve dramatically, the insurance industry should proceed with some caution before reducing premium rates. Such caution will be justified to maintain underwriting discipline, since industry costs overall are still too high. Balance sheet restoration will become mandatory for survival. Claims and administration cost reduction will become a priority and carriers will seek to improve the quality of their business written. For these reasons our view is that the shape of the current insurance cycle will show a lengthening in comparison with those of the recent past.

We continue to invest our insurance fund, that today totals £290 million, in fixed interest instruments. Our priority is to preserve the capital value of our funds to protect our underwriting book from capital adequacy issues that could restrict our ability in writing business. We must therefore accept a return commensurate with this fairly risk averse approach. However, we are investigating investment strategies that could enhance our return potential, without extending the risk profile we are prepared to countenance.

The second consideration is based around the likelihood of industry consolidation, together with an assessment of the ground rules that affect and therefore govern the profitability of all companies in the sector.

The UK motor insurance market covers gross premiums of £11.5 billion, of which 60% is still distributed through intermediaries. Six major insurers dominate, controlling 70% of the market. The balance is made up by an additional 15 or so participants who have individual market shares of between 1% and 4%. For an industry whose key selling proposition is based around price and therefore lowest costs, the present status quo would appear unsustainable. Predominantly, scale will prevail, as will some smaller players who have been inventive in developing business models which accrete value and are low cost producers.

Highway has sufficient business volume to warrant the necessary investment in the most modern and productive systems. It has the capacity to write substantial additional business, is low cost and is seeking to enhance its business model. It therefore possesses the capability of being a consolidator of the UK motor industry, though larger industry players may view Highway as a consolidation play.

My final point of observation for the industry regards the post modernist culture of complaint, blame and compensation which appears to be a blight on UK society blown here from the US. In the UK we now have a judicial system with a willingness to sanction ever-increasing settlements over an ever-widening range of claims. It is not therefore surprising that a raft of lawyers would rather channel their efforts in to retrospective re-determination of legal insurance contracts, tempting the public with the "no win no fee" advertisements on television.

There is one point which is particularly germane to this issue. Most insurers are happy to settle genuine claims where cover has been provided; the quid pro quo is that the quantum of risk is agreed at the time the policy is contracted. At the moment this is not the case. On exchange of contract for insurance, insurers are likely to see 90% of the total liability, with the remaining 10% "evolving" by precedent over the term of the claims settlement process. Eventually insurers will see an opportunity to 'price in' the unseen part of the liability, and as they seek to improve the quality of their underwriting book, to 'price out' some customer groupings. At such a stage the motor insurance buying public will be confronted with what has from its point of view become a minus sum game. Insurance, like all goods and services, comes at a price, where part of the implicit assumption is to ensure that the business endures, so that claims are met and "renewals" are offered. The capacity of the industry to pay claims should not be viewed as limitless, and the insured public should realise it will pay in the end.

Staff

My statement would not be complete without mention of all our staff, who have coped admirably with all the changes which have confronted them in the past twelve months. Their support and enthusiasm in modernising the business has been marvellous. I thank all of them and Andrew Gibson, together with the rest of the executive team, for the progress we have been able to achieve in improving the business for our shareholders.

We have taken some important and significant steps in 2002, which I expect to be reflected in a more successful year in 2003. Given our resources and market position, we have appropriate plans to deal with market conditions as they change. However, we remain fully committed to the main thrust of our strategy, which has to be good implementation.

Ross Dunlop, *Executive Chairman*
7 April 2003

2002 has been a year of renewal for Highway. We set out to address three broad objectives, namely to:

- enhance our franchise as a leading broker-only motor insurer;
- utilise better our assets by driving out any unnecessary costs and inefficiencies from the business; and
- take full advantage of the current favourable trading environment.

I believe that we made great strides in achieving these aims during the year and the business is much improved as a result. Our many achievements would not have been possible without the tremendous effort of our people. Their dedication and commitment has been exemplary.

Financial Performance

Financial performance is split between our continuing motor insurance operations and discontinued operations comprising a household insurance account and Autofirst, a French personal lines operation, both of which were closed at the start of the year.

For 2002, we have produced what we consider to be a satisfactory financial result. Operating profit from continuing operations, based on the longer-term investment rate of return, before exceptional items and amortisation, was £21.4 million (2001: £9.2 million). The operating ratio from continuing operations reduced to 93.7% from 102.9% in 2001.

Profit before tax on continuing operations, excluding exceptional items was £17.7 million (2001: £6.8 million). Including discontinued operations and, after accounting for the exceptional write-off of the investment in New Millennium Technologies and the costs of restructuring the head-office, profit before tax was £0.3 million (2001: £10.5 million).

Operational Review of 2002

In the ensuing paragraphs I describe the principal operational changes that were implemented during 2002 that have resulted in a more robust business.

We completed the implementation of GIOS, our new core processing IT system, in January. The new system has been the platform from which we have been able to enhance our business processes and, for example, develop electronic trading facilities with our distribution network. We were the first UK users of GIOS; the system is now fully installed and I am confident that over time it will become the system of choice for UK motor insurers. During the same month we also completed the installation of FRESH, a new broker accounting and reconciliation system.

In January, we closed the Stockport and Chatham underwriting offices. This was in addition to the closure of our Bristol office in 2001. These closures and other initiatives reduced our headcount from over 750 to under 600. Cost control is key to our future success and we will continue to develop the most efficient business that we can.

During the first quarter, the claims department introduced competency testing and an enhanced branch audit process. These have helped identify training and development requirements in this key area of our business whilst enabling members of staff to progress through the new grading structure.

In April, we raised £25 million in new equity. Following the capital raising, I was subsequently appointed CEO. Chris Hill and Ian Patrick also joined the Board of our holding company as Underwriting Director and Finance Director respectively.

At the same time we renamed the group Highway. Our business is now focused exclusively on motor insurance and it made little sense having the listed holding company called something different from its principal trading subsidiary.

At the end of June we closed our City office and relocated our registered office and head-office functions to Brentwood. The office relocation and senior management changes will save us £1.5 million per annum from 2003. The one-off cost of the restructuring was £1.2 million.

On 1 July we launched a new private car product, Highway Choice. This replaced 13 existing Highway private car products. Choice took six months to develop using the latest actuarial rating techniques and provides a more sophisticated rating engine that gives us the ability to select more accurately the risks that we want. Choice has been very well received by our brokers.

In July we also began piloting our fraud detection capabilities including Voice Stress Analyser, cognitive interviewing techniques and Hunter, a fraud database. The ABI estimates that fraud costs the UK insurance industry over £2 billion per annum. Highway is at the forefront of fraud prevention and detection and we intend to continue to lead the market in this area.

We completed our first year using the Claims Outcome Advisor (COA) system. COA is an expert system that assists us to settle and reserve personal injury claims. Our initial review indicates that we have successfully reduced general damage costs by some 14%. Another claims change that is improving the bottom line is the outsourcing of the negotiation of third party legal cost. This initiative is estimated to be generating average savings of approximately 27% on each invoice presented which is a significant improvement on the savings achieved in prior years.

By October we had developed full-cycle private car Electronic Data Interchange (EDI) facilities with the five software houses that support the vast majority of UK personal lines brokers. This process allows transactions collected by our brokers to be sent to us and processed automatically without the need for clerical input. EDI greatly accelerates processing, is more accurate and improves cash flow. In January approximately 25% of our new business was received electronically. Today the figure is almost 80% and is increasing. This initiative allowed us to close the Edinburgh underwriting office and reduce staff count further to 557 today. As a result we expect to reduce operating costs by £1 million in 2003 and by £2 million in 2004 and subsequent years.

In November we also announced the outcome of a detailed review of our underwriting process. In particular, we introduced a new operating structure that separates processing from broker management. Our new structure will help us control costs whilst providing an improved service to brokers and policyholders.

In December, the FSA confirmed that, as HighCo has now successfully completed three years trading, it is no longer regarded as a new insurance company and it will therefore benefit from a lower solvency requirement going forward.

New Millennium Technologies

Ockham had made an investment in the New Millennium Technologies (NMT) software business in 1999 when its previous supporters, including a number of insurers and brokers, withdrew. Although NMT was a much-improved business, and had made a number of new sales, it was still some way from break-even. It had tried to attract new investors but had not achieved this. We announced in November, therefore, that we would no longer support NMT after the end of the 2002 calendar year as we needed to preserve our resources to invest in our core underwriting business.

Lloyd's Exit

Lloyd's is an expensive, complicated and risky environment in which to operate. Lloyd's levies and subscriptions cost somewhere between 2.5% to 3% of premium income per annum. Lloyd's three year accounting convention and other accounting policies inhibit transparency and prevent a direct comparison with the majority of other UK personal lines insurers. Finally, within the Lloyd's environment, all insurers are linked via the mutuality of the Lloyd's Central Fund. In 2002, for example, Highway paid a levy of 1% of premium income underwritten at Lloyd's to replenish the Central Fund following the events of 11 September 2001 albeit that we have never written insurance business in North America.

In November we agreed with Lloyd's that 2002 would be our last year and in 2003 we would underwrite exclusively through Highway Insurance Company Limited, our FSA regulated insurance company.

Highway has increasingly benefited from lower operating costs since HighCo was established for the 2000 underwriting year. These cost reductions have increased annually as an increasing proportion of our business has been transferred from Lloyd's to HighCo. The exit from Lloyd's will, however, generate further cost savings of around £1.5 million in 2003 and this will rise to £2 million per annum thereafter.

Outlook

We are well set to continue to benefit from the positive trading conditions, an increased premium capacity and a more robust business.

Underwriting

Following our exit from Lloyd's and the capital raising completed in the first half of 2002 we will have an underwriting limit of £320 million of gross premiums in 2003. This is a 22% increase on our total premium income limit and means that we will not have to rely on co-insurance to the same extent as we did in 2002.

Highway Premium Limit by Underwriting Entity

£ millions	2003	2002	2001
Highway Insurance Company	285	116	87
Syndicate 2037 (Highway's corporate syndicate)	–	59	156
Syndicate 37 (third party Lloyd's names)	–	8	74
Co and Reinsurance arrangements	35	80	26
	320	**263**	**343**

The rate of premium increase slowed in 2002 when compared to the previous three years as the UK motor market returned to profitability. We achieved increases of approximately 8% in 2002 following increases of 15% in 2001, 17% in 2000 and 21% in 1999.

Going forward we expect premiums to continue to increase albeit at a more modest rate than that seen over the last few years. There is no new capital entering the UK motor market and consolidation continues to reduce the number of underwriters. At the same time many insurers are continuing to experience difficulties with falling asset bases and increasing liabilities from non-motor activities. These factors, together with greater market discipline, should continue to help us to achieve further premium rate increases.

On 1 January 2003 we launched our new commercial vehicle product, Highway CV Choice. This product again consolidates and replaces a number of existing Highway offerings and it also provides a more sophisticated rating engine. Highway CV Choice supports electronic trading with the leading broker software houses from 1 February 2003. Our motorcycle product is being similarly redeveloped and upgraded and the new product will be available from 1 May 2003.

Distribution

Brokers and other intermediaries continue to control over 60% of the £11.5 billion UK motor insurance market. We are committed to the broker market and have little current intention of developing our brand with the end-consumer. In this way, Highway is an invisible insurer, content to stand behind the brand of others, underwriting as part of a panel of insurers selecting only those risks that we believe we can write profitably.

Highway's business is currently placed via a diverse distribution base comprising some 2,000 individual outlets. Brokers include:

- major chains such as Swintons, Budget, Endsleigh and A Plan;
- telesales and Internet operators such as The AA and Kwik Fit;
- niche operators providing non-standard insurance to young drivers and coverages for modified or specialist vehicles;
- direct underwriters who refer non-core business; and
- affinity schemes.

Our underwriters understand and manage closely our brokers. In this way we can maximise these relationships to ensure the most beneficial and profitable outcome for both parties.

We believe that technology such as the Internet and the development of brands will ensure that intermediaries have a continuing strong role in the distribution of personal lines products and Highway is well set to continue to benefit from these trading arrangements.

Claims

Claims cost inflation continues to be an issue for the market and for 2003 will probably outstrip increases in premium rates. Although accidental damage and theft costs are increasing at modest rates in-line with retail price inflation, personal injury costs and their related legal expenses continue to run ahead of this level. The rate of increase is, however, showing signs of slowing and although National Health costs have been increased from January 2003 this change, is for once, not retrospective and should only affect claims arising after this date. We are further encouraged by the recent decision to introduce fixed legal fees for road traffic accident cases valued up to £10,000. We believe that this will limit the costs of some of the worse protagonists within the market and also allow for greater consistency in the reserving and pricing processes.

Going forward we will continue to focus our activities on controlling the key claim cost drivers whilst providing an above average level of service. These include frequency, severity and settlement time. Our claims frequency has improved following the introduction of the new Highway Choice private car product in July. Our fraud prevention and detection procedures will help us to control average claims costs and we are introducing new workflow processes that will help to reduce further average claims settlement times.

Operating Expenses

In 2002 Highway had an expense ratio of 21.1% of premium income. This compares favourably with the latest published market expense ratio for the 2001 year of 27.8%. Cost control is a key business objective. We expect the cost savings already in the pipeline following the introduction of electronic trading, the closure of the Bishopsgate head office and our exit from Lloyd's to allow us to reduce costs further in the future as we trend to lowest cost producer status.

Investments

Highway's investment funds totalled £267 million at 31 December 2002. These funds have increased to £290 million today following an increase in the capital base of HighCo in early 2003. Highway's investment funds are expected to continue to grow as a result of the positive trading conditions and our increased premium income limits.

Over the last two years we have benefited from a conservative investment policy that has avoided exposure to equities. We have therefore produced positive total returns when many of our competitors have produced losses.

In today's economic climate, however, historic investment yields are probably unattainable. We must therefore maintain a strict discipline to underwrite for profit; an objective that the UK motor market has failed to achieve for a number of years. This will reduce our reliance on investment income where our objective will be to maximise returns whilst protecting the underlying capital.

Non-risk Income

In order to augment our underwriting returns and to support our broker trading partners, we are continuing to develop our interests in businesses that extend our reach across the personal lines insurance value chain. Two of these operations: Crusader and Highway Premium Finance operated profitably throughout 2002.

Crusader is an accident management business that provides services to those involved in non-fault accidents. Highway owns 60% of the share capital of Crusader with the minority interest owned jointly by management and one of our producing brokers. During 2002, Crusader has made good progress in developing its client base and made a contribution of £0.5m to pre-tax profits before minority interests.

Highway Premium Finance is a wholly owned subsidiary that provides premium-financing facilities to brokers placing personal lines products. By 31 December 2002, Highway Premium Finance had made loans totalling £12.1 million and had made a contribution to pre-tax profits of £0.2 million.

In the early part of 2003 we have also made an investment of £300,000 to extend our ownership of Elite, primarily a specialist motorcycle broker, from 30% to 75%. This is a modest but significant investment for Highway and one through which we will seek to develop further our knowledge of the retail marketplace.

Overall 2002 was a busy and productive year. We have made satisfactory operating profits and achieved an operating ratio of 93.7% from continuing operations that is better than our cross-cycle target of 98%. Our expense ratio on continuing activities has reduced to 21.1% from 24.9% in 2001. Investment returns were positive when many insurers lost money on the stock market. We have again outperformed the market whilst continuing to make significant progress in developing our business.

We start 2003 with more underwriting capacity and lower costs and I am confident that we will continue to make the best of all available opportunities.

Andrew Gibson, *Chief Executive Officer*
7 April 2003

Accounting Presentation

In 2002, Highway's motor insurance business was underwritten in parallel through two Syndicates at Lloyd's (Syndicate 37 and Syndicate 2037) and Highway Insurance Company Limited ("HighCo"), together with co-insurance arrangements. The capital for Syndicate 37 was provided solely by third-party Lloyd's Names. The capital for Syndicate 2037 was provided exclusively by Highway.

Under FSA rules, HighCo must produce its accounts on a one year earned premium GAAP basis. As HighCo represents a significant part of our business and from 1 January 2003 replaced Syndicate 2037, we have again adopted this accounting policy for all of our motor insurance underwriting.

One year earned premium data is not available for the participations by our subsidiary New London Capital ("NLC") on Lloyd's syndicates managed by third parties so these participations are accounted for on a three year funded basis. However, following the reinsurance protections put in place in early 1999, Highway has no direct economic interest in the results of NLC's underwriting; so, although NLC continues to report here under the Lloyd's three year accounting convention, this has little financial significance.

Financial Results

The year to 31 December 2002 has seen Highway continue to make significant progress and increase operating profits by 26%.

The operating result, based on the long term investment rate of return before exceptional items, was £15.9 million (2001: £12.6 million). Profit before tax and exceptional items was £13.5 million (2001: £10.5 million). This result equates to an after tax return on equity of 16.1% (2001: 13.2%) excluding the exceptional items.

The following activities have been treated as discontinued: the Household and French books and the NLC syndicate participations.

The results from continuing operations excluding the exceptional items can be analysed as follows:

£ millions	**2002**	**2001**
Net earned premiums	146.1	170.5
Underwriting result	10.5	(4.9)
Long term investment return	14.1	15.9
Reported technical result	24.6	11.0
Other income	4.2	5.3
Other charges	(7.9)	(6.9)
Non-underwriting investment return	(0.9)	(0.7)
Operating profit based on long term rate of return	20.0	8.7
Short term investment fluctuation	(2.3)	(1.9)
Reported profit before tax	17.7	6.8
Tax	(5.3)	(2.2)
Reported profit after tax	12.4	4.6
Earnings per share	6.9p	3.4p

Highway – Financial Performance

The technical result for Highway Insurance for the year was a profit on continuing activities of £24.6 million compared to £11.0 million in 2001. This result equates to an operating ratio on continuing operations of 93.7% for 2002, a significant improvement over the 102.9% achieved in 2001.

£ millions	**2002**	**2001**
Gross premiums written	129.1	220.1
Net premiums written	119.5	195.6
Net earned premiums	146.1	170.5
Net claims incurred	(105.9)	(133.0)
Loss ratio	72.6%	78.0%
Net operating expenses	(30.9)	(42.4)
Expense ratio	21.1%	24.9%
Long term investment return	14.1	15.9
Other technical income	1.2	-
Published technical result	24.6	11.0
Operating ratio	93.7%	102.9%

Written Premiums

Highway's share of written premiums fell in the year, following the replacement of a reinsurance gearing arrangement with co-insurance. Business ceded to the co-insurer does not appear as part of the Group's written premiums. Commission arising from the co-insurance of £1.2 million appears as other technical income.

Expense Ratio

Highway trades with one of the lowest expense ratios in the UK personal lines insurance market. 2002 saw a significant transfer of Highway's business out of Lloyd's into HighCo, where we can save up to 3% of premium income per annum on regulatory costs. 2003 will see the completion of this process as all of Highway's business is written in HighCo. Further cost saving initiatives are planned.

Investment Income

Net investment income received for the year was £11.4 million against £14.3 million. Income was reduced as a result of falling fixed interest yields. During the year, against the backdrop of falling markets, we maintained very conservative investment guidelines and did not invest in the equity market. The portfolio consisted only of gilts, high-grade corporate bonds, certificates of deposit and cash with an overall maturity of around six months.

Investment income received is analysed below:

£ millions	2002	2001
Long-term return on insurance funds	14.7	17.1
Adjustment for actual yield received	(2.4)	(2.1)
Actual return on investment funds	12.3	15.0
Investment return on non-insurance funds	(0.9)	(0.7)
Total investment return achieved	11.4	14.3

On a longer-term basis, we now anticipate a return of 5.5% per annum from our managed investment portfolios. This is a reduction from a rate of 6.5% used in the past. The investment income credited to the technical account based on the long term rate of return of 5.5% was £14.8 million in 2002. The 2001 figure of £17.1 million is not restated and is still based on a 6.5% rate of return. On a similar basis the 2001 figure would reduce to £14.4 million.

In 2002, the overall investment yields achieved were 4.56% for HighCo (2001: 5.64%) and 4.68% for Syndicate 2037 (2001: 5.63%). The difference in yield from 5.5% is charged to the consolidated profit and loss account as a short-term fluctuation in investment return. This difference was a loss of £2.4 million compared with £2.1 million in 2001.

In 2002, the Profit and Loss Account also showed net interest payable from non-underwriting funds of £0.9 million. Highway has utilised greater amounts of debt in 2002, the costs of which offset any investment income earned on non-insurance funds.

Non-risk Income

Crusader is our uninsured loss recovery business that provides accident management services to those involved in non-fault road traffic accidents. Crusader is 60% owned by Highway with the remainder held by staff and one of Highway's principal producing brokers. For 2002, Crusader produced a profit before tax of £0.5 million. The income and costs of Crusader are consolidated fully within the financial statements and are included within Other income and Other charges within the Profit and Loss Account

2002 also saw the first full year's trading for our instalment plan business, Highway Premium Finance. It produced a profit before tax of £0.2 million.

Central Costs

Highway's central costs include the Group's central administrative and support functions and the costs of the central management team. The costs are those retained by Highway net of expenditure allocated to managing agencies and Names.

During the year the former head office in Bishopsgate was closed and the management team was reorganised. One-off costs of the exit from Bishopsgate and management change totalled £1.2 million but these initiatives are expected to save around £1.5 million annually from 2003.

The detailed figures which exclude the exceptional restructuring costs are set out below:

£ 000s	2002	2001
Property and other costs	476	820
Irrecoverable VAT	161	140
Central management costs	1,556	1,817
Professional and consultancy cost	422	465
Other central costs	112	441
	2,727	3,683

Taxation
The tax charge for the year on continuing operations was 30.1%. The tax credit on discontinued operations was above the standard rate of 30% as a result of the release of provisions against deferred tax.

Dividends
The directors have proposed a final dividend of 1.68p per share (2001: 1.6p) payable on 11 June 2003 to shareholders on the register on 22 April 2003. Taken together with the interim dividend of 0.8p per share (2001: 0.8p), total dividends for the year are 2.48p per share (2001: 2.4p).

Balance Sheet
The Balance Sheet presented within the financial statements consolidates the assets and liabilities of Syndicate 2037, Highway Insurance Company Limited and the NLC syndicates with other directly held corporate assets. For clarity the Balance Sheet is replicated below summarising the main headings and including Syndicate 2037 and Highway Insurance Company Limited as single separate lines.

£ millions	2002	2001
Goodwill	3.5	3.3
Tangible fixed assets	1.2	1.9
Investment in own shares	2.5	2.6
Group assets used as funds at Lloyd's	19.7	18.3
Other financial investments and cash balances	9.4	4.1
Net other assets	5.3	17.3
Term debt	(35.0)	(33.0)
Interest in HighCo	71.2	52.4
Interest in managed syndicate	(2.3)	(7.7)
	75.5	59.2

Following the Placing and Open Offer completed in April that raised £23.2 million after expenses, Shareholders' funds have increased to £75.3 million from £58.9 million after providing for the proposed final dividend. Net assets were equivalent to 37.3p per share at 31 December 2002 (2001: 46.1p).

During the year the Group agreed a new £50 million term debt facility with Lloyds TSB and Credit Lyonnais. At 31 December 2002, £35 million of the facility had been drawn. The balance of the facility was utilised in January 2003 and used to increase the capitalisation of HighCo.

Pension Commitments
The Group has assessed its pension commitments in accordance with FRS 17. This methodology compares the market value of the pension fund assets with the discounted value of the projected liabilities using a corporate bond discount rate of 5.5%. The aggregate net of tax shortfall at the end of 2002 was approximately £11.5 million.

The defined benefit pension scheme is closed with the exception of 91 members of staff who were in the scheme and aged over 50 on 1 January 2001. All other members of staff have the opportunity to participate in a defined contribution pension scheme.

Further initiatives are ongoing to reduce the shortfall.

Ian Patrick, *Finance Director*
7 April 2003

Directors

Ross George Dunlop
Executive Chairman

David Frank Barker*

David Ean Coleridge*

Stuart Robert Davies
Claims Director

Richard Arthur Gamble*

Andrew James Gibson
Chief Executive Officer

Christopher Derek Hill
Underwriting Director

Judy Ann Kellie*

Ian William James Patrick
Finance Director

John Mayfield Stoker*

Allen Lloyd Thomas*

*Non-executive

Secretary
Philip John Lampshire

Registered Office
Highway House, 171 Kings Road, Brentwood,
Essex CM14 4EJ

Auditors
Ernst & Young LLP
Rolls House, 7 Rolls Buildings, Fetter Lane,
London EC4A 1NH

Stockbrokers
Numis Securities Limited
Cheapside House, 138 Cheapside,
London EC2V 6LH

Registrars
Lloyds TSB Registrars
The Causeway, Worthing,
West Sussex BN99 6DA

Bankers
Lloyds TSB Bank Plc
113-116 Leadenhall Street,
London EC3X 4AX

The directors submit their report and the audited financial statements of the Group and Company for the year ended 31 December 2002.

Principal Activities, Business Review and Future Developments

The Company is a holding company and provides services to its subsidiaries, which are in the main Lloyd's underwriting agencies, an insurance company, associated broker product providers and corporate members of Lloyd's. A review of the Group's activities and its future prospects is set out in the Chief Executive's Report and the Financial Review.

Group Results and Dividends

The loss for the year to 31 December 2002 attributable to shareholders amounted to £2,443,000 after taxation before minority interest (2001: profit of £7,177,000). An interim dividend of 0.8p per share (2001: 0.8p) was paid in November 2002 amounting to £1,581,000. The directors are recommending a final dividend of 1.68p per share net amounting to £3,330,000 payable on 11 June 2003 to shareholders on the register at the close of business on 22 April 2003. This will make a total dividend for the year of 2.48p per share net (2001: 2.4p per share). The retained loss for the year of £7,492,000 will be transferred from reserves (2001: retained profit of £3,795,000 transferred to reserves).

Directors

The interests of the directors who held office at 31 December 2002, in the share capital of the Company, are set out on page 30 of the Directors' Remuneration Report. Changes in these interests between 31 December 2002 and 10 April 2003 are also noted in the Directors' Remuneration Report.

A number of changes to the Board have taken place since 1 January 2002.

Retirements

The Lord Poole	26 March 2002
Jean Arvis*	8 July 2002
Tony Hambro	8 July 2002
Keith Bradley*	5 February 2003
Graham Kennedy*	5 February 2003

Appointments

Ross Dunlop	30 April 2002
Chris Hill	8 July 2002
Ian Patrick	8 July 2002
Judy Kellie*	5 February 2003
John Stoker*	5 February 2003
David Barker*	12 March 2003
Stuart Davies	12 March 2003
Richard Gamble*	12 March 2003

*Non-executive

In accordance with the Company's Articles of Association Mr Barker, Mr Davies, Mr Gamble, Mr Hill, Ms Kellie, Mr Patrick and Mr Stoker, having been appointed directors since the last annual general meeting shall retire, and being eligible, offer themselves for re-appointment at the Annual General Meeting.

Mr Gibson retires by rotation and, being eligible, offers himself for re-appointment at the Annual General Meeting.

Mr Coleridge reached 70 years of age in June 2002 and also offers himself for re-appointment.

Board of Directors

Executive Directors

Ross Dunlop, *Executive Chairman*
Ross Dunlop, aged 49, was appointed Executive Chairman on 8 July 2002. Previously he was a non-executive director and Deputy Chairman of Highway. He was with National Car Parks Limited for four years prior to its sale in 1998 for £801 million. There he fulfilled a number of roles, including acting as the group's Finance Director, and was on the Board of Green Flag's insurance subsidiary, U.K. Insurance Limited. He worked previously at Robert Fleming Limited, Hoare Govett Limited and at KPMG.

Andrew Gibson, *Chief Executive Officer*
Andrew Gibson, aged 46, was appointed Chief Executive Officer on 8 July 2002. He spent seven years with Touche Ross as an auditor and management consultant in the financial services division, latterly managing the insurance IT consultancy group. He joined Sturge Group in 1991 working first in IT and operations before becoming Finance Director of the group's consistently successful aviation and non-marine subsidiaries. On the sale of those businesses, he joined Highway's management team in October 1995, was appointed to the Board in July 1996 and became Finance Director in October 1996. He is Managing Director of Highway Insurance Company Limited and the group's Lloyd's managing agencies.

Ian Patrick, *Finance Director*
Ian Patrick, aged 35, trained and qualified with Chartered Accountants BDO Binder Hamlyn in their Edinburgh office. He moved into industry with Croft Oil & Gas plc in 1991 becoming Company Secretary in 1992 and Finance Director in 1994. After the sale of the group in 1997 he joined Mitsui Bussan Commodities, a global metal derivatives trading business, as Financial Controller. Ian joined Highway as Financial Controller in July 1999. He was appointed to the Board on 8 July 2002.

Chris Hill, *Underwriting Director*
Chris Hill, aged 47, joined Highway in October 2001 and was appointed to the Board on 8 July 2002. He spent 12 years at Sun Alliance and two years at Direct Line before joining ITT London & Edinburgh as Motor Underwriting Manager in 1988. From 1997 to 2001, he was Director of Underwriting for motor, household and travel at Fortis.

Stuart Davies, *Claims Director*
Stuart Davies, aged 35, is a qualified chartered accountant having trained at Ernst & Young. He has spent ten years with Highway in a variety of roles, including Finance Director of Highway Insurance Company Limited. He joined the Board on 12 March 2003.

Non-Executive Directors

Allen Thomas
Allen Thomas, aged 63, is an American lawyer now working in London following his retirement as a partner of the New York law firm Paul, Weiss, Rifkind, Wharton & Garrison where he practised commercial law for 28 years. He moved to London in 1992 to become general counsel to a private investment group and is currently a non-executive director of a number of companies including Penna Consulting plc and Eidos plc. Mr Thomas joined the Board in 1995 and is the senior independent director.

David Barker
David Barker, aged 61, joined the Board on 12 March 2003. An actuary by profession, he spent 27 years with Norwich Union, latterly as Chief Investment Manager, before becoming Managing Director of Hill Samuel Investment Management in 1986. In 1990 he joined Royal Insurance Asset Management as Managing Director and was a Director of Royal Insurance Holdings plc and subsequently a Group Director of Royal & Sun Alliance Insurance Group plc from 1996 to 1998.

David Coleridge
David Coleridge, aged 70, joined the Group in 1957 and was its Chairman from 1978 to 1995. He was Chairman of Lloyd's in 1991 and 1992.

Richard Gamble
Richard Gamble, aged 63, joined the Board on 12 March 2003. He is a chartered accountant and was Group Chief Executive of Royal Insurance plc (1992 -96) and Royal & Sun Alliance Insurance Group plc (1996-97). He has also held senior positions at British Airways and Lowndes Lambert and is a non-executive director of Excel Airways Group plc. He is non-executive Chairman of the construction company, Denne Group Limited.

Judy Kellie
Judy Kellie, aged 55, was appointed to the Board on 5 February 2003. She worked for Orion Insurance from 1968 to 1986 in a number of agency management and marketing functions, finally as Agency Manager. In 1986 she joined London & Edinburgh Insurance Company Limited and was Group Marketing & Corporate Relations Director from 1992 to 1998. In 1999 she joined Intelligent Marketing Partnership - a business development, marketing, communications and PR consultancy to the general insurance industry. Judy Kellie has served on a number of ABI and CII national committees.

John Stoker
John Stoker, aged 68, was appointed to the Board on 5 February 2003. He worked for Sedgwick Group for 32 years and was a director of a number of Sedgwick companies both in the UK and overseas. In 1989 he joined the management consultants and actuaries, Tillinghast, where he was engaged in a variety of insurance-related projects. Since 1993 he has been an independent consultant and his clients have included government agencies, Lloyd's, the ILU and a range of insurers and purchasers of insurance products.

Substantial Interests

Other than the holding of David Coleridge, as disclosed on page 30 of the Directors' Remuneration Report, so far as the directors are aware, or have been notified pursuant to section 198 of the Companies Act 1985, the following shareholders have interests in 3% or more of the ordinary share capital of the Company at 10 April 2003.

	Number of Shares	%
J O Hambro Capital Management Limited	36,417,605	18.06
UBS Global Asset Management	12,128,795	6.02
Fidelity Investments	11,741,821	5.82
Undervalued Assets Trust plc	7,216,000	3.58
Legal & General Investment Management Limited	6,607,157	3.28

Share Capital

Details of the current share capital of the Company are given in Note 22 to the financial statements on page 60.

In April 2002, 72,469,626 shares were issued pursuant to a Placing and Open Offer at 34.5 pence per share.

On 26 July 2002, 600,398 shares were issued to existing shareholders who had elected to receive new shares in lieu of the dividend paid in respect of the year ended 31 December 2001. On 15 November 2002, 657,716 shares were issued to existing shareholders who had elected to receive new shares in lieu of the interim dividend paid in respect of the six months ended 30 June 2002.

Permission was obtained from shareholders at the Annual General Meeting in July 2002 to purchase up to 10% of the Company's ordinary share capital. A resolution to grant the Board power to buy back up to 10% of the issued capital for a further year will be put to shareholders at the forthcoming Annual General Meeting.

3,372,906 shares are held on behalf of the Employee Benefit Trust and, except in respect of 0.001 pence per share, the right to receive any dividend has been waived.

Creditor Payment Policy

It is the Group's policy to follow "The Better Payment Practice Code" published by the Department of Trade and Industry. A copy of the Code can be obtained from the DTI Publications Orderline on 0870 1502500, quoting reference URN 01/621.

As the Company owed no amounts to trade creditors at 31 December 2002, the number of days required to be shown in this report to comply with the provisions of the Companies Act 1985 is nil. The number of creditor days for the Highway Group, based on creditors at the year-end and purchases during the year, was 34 days (2001: 34 days).

Employment Policies

The Group is committed to employment policies which follow best practice, based on equal opportunities for all employees irrespective of sex, sexual orientation, race, colour, religion, disability, marital status or age.
The Board pursues policies designed to encourage employees to identify with the Group and to use their knowledge and skills actively towards its success. It encourages and funds appropriate training and studying for relevant professional qualifications.

The Group has an Executive Share Option Plan and two long term incentive schemes: the Ockham Long Term Incentive Plan and the Highway Group Services Plc Restricted Share Scheme.

Full and fair consideration is given to employment applications from disabled persons who have the necessary aptitude and abilities. Where an employee becomes disabled whilst employed, arrangements are made whenever practicable to maintain employment and offer appropriate training.

Charitable and Political Contributions

During the year the Group did not make any charitable donations and no contributions were made for political purposes.

Corporate Responsibility, Safety and the Environment

The Group is committed to the highest standards of business conduct in its dealings with customers, business partners and suppliers. Policies and procedures are in place to facilitate reporting of suspected business malpractice or fraudulent activities.

The Group's Health and Safety policy aims to ensure the health and safety of all employees, contractors and others who may be affected by the Group's operations. Training is provided and all staff have access to health and safety information via the Group's Intranet.

The Group is mindful of its responsibilities towards the environment and the community in general and seeks to exert a positive influence on environmental issues both internally and externally. However, as the Group operates within the insurance sector of the financial services market, environmental issues have relatively little impact on the Group's business. The introduction of electronic data exchange, together with the widespread use of e-mail and the Group's Intranet, have helped to reduce paper consumption and the Group continues to seek ways to reduce the volume of paper consumed.

Auditors

Ernst & Young LLP has expressed its willingness to continue in office. Resolutions to re-appoint Ernst & Young LLP as auditors and authorising the directors to set their remuneration will be put to the members at the Annual General Meeting.

By order of the Board
Philip J Lampshire, *Secretary*
7 April 2003

Directors' Remuneration Report

Remuneration Committee

The Remuneration Committee, comprising Allen Thomas (Chairman), David Coleridge, Judy Kellie and John Stoker makes recommendations to the Board on the framework of executive directors' remuneration and determines, on the Board's behalf, specific remuneration packages for the Chairman and the executive directors. The Committee meets at least twice a year.

The Committee gives consideration to pay and employment policies throughout the Group especially when determining annual salary increases.

From time to time, although this did not occur in 2002, the Remuneration Committee takes advice from external consultants regarding the Group's remuneration policy to maximise comparability with the marketplace.

Directors' remuneration policy

The Group's policy on remuneration for 2002 and subsequent financial years is that the overall remuneration package should be sufficiently competitive to attract, retain and motivate high quality executives capable of achieving the Group's objectives and thereby enhancing shareholder value. The package consists of basic salary, benefits, share options, performance related bonuses and pensions. It is performance led and market based, rewarding above average performance through incentives, and integrated with the budgetary process.

The fees of the non-executive directors are agreed by the Board and are designed to attract individuals with the necessary experience and ability. The fees, which are neither performance related or pensionable, are comparable with those paid by other companies.

Basic salary and benefits

Salary and benefits are reviewed annually in the context of individual and business performance. The strategy for executive directors' pay is for basic salaries to reflect the market median and for benefits such as a company car, pension and medical insurance to reflect market practice.

Variable compensation

The executive directors and other key executives participate in performance related remuneration schemes which are designed to reflect specific targets linked to the performance of the business.

Performance related bonuses

These are designed to reflect specific goals linked to business performance. In 2002, Mr Dunlop, Mr Gibson, Mr Hill and Mr Patrick had a maximum bonus opportunity of 100% of salary. The awards were based on Group and individual performance and the attainment of predetermined targets relating to the Company's combined ratio and return on equity.

In 2003, the executive directors will again have a maximum bonus opportunity equal to 100% of their salary. Awards will be made on the same basis as in 2002.

Executive share option plan

In September 2002, following shareholder approval, the Highway Executive Share Option Plan was established. The performance conditions are aimed to align directors' performance to shareholder value and were selected by the Remuneration Committee following discussions with a number of the Company's leading institutional investors. The Plan provides for the grant of unapproved share options to eligible executives. "Unapproved" in this context means that any gains eventually realised on the exercise of options will be liable to both income tax and National Insurance Contributions. The Plan participants are also required to meet the Company's National Insurance Contributions. The exercise price of an option is determined by the Remuneration Committee not later than the date when the option is granted and may not be less than 34.5 pence per share. Details of Options granted to executive directors under the Highway Executive Share Option Plan, together with the performance conditions relating thereto, are set out under "Directors' interests" on page 30.

Ockham Long Term Incentive Plan

In September 1999 the Ockham Long Term Incentive Plan ("the LTIP") was established. The LTIP has been replaced by the new Highway Executive Share Option Plan and the only awards made to directors of the Company which remain outstanding under the LTIP are in respect of Mr Hambro. Details of directors' interests in the LTIP are set out on page 31.

Service contracts

Mr Dunlop, Mr Gibson and Mr Hill have service contracts that the Company may terminate by giving one year's notice. Mr Davies and Mr Patrick do not have service contracts but have employment contracts that the Company may terminate by giving six months notice.

None of the non-executive directors has a service contract. Their appointment may be terminated on not more than three months notice.

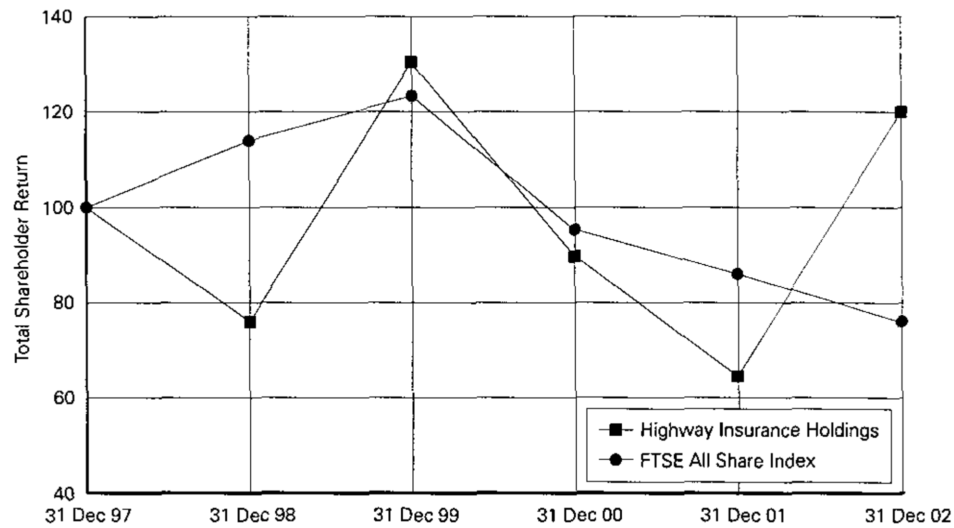
There are no pre-determined special provisions for executive or non-executive directors with regard to compensation in the event of loss of office. The Remuneration Committee considers the circumstances of individual cases of early termination and determines compensation payments accordingly.

Performance graph

The graph below shows the percentage change in the total shareholder return (with dividends reinvested) for each of the last five financial years of a holding of the Company's shares against the corresponding change in the FTSE All Share Index.

The FTSE All Share index was selected as it represents a broad equity market index in which the company is a constituent member.

Total Shareholder Return Monitoring: Highway Insurance Holdings vs FTSE All Share Index



Directors' remuneration in 2002

This section of the Report (which has been subject to audit) sets out the remuneration paid to the directors during the year to 31 December 2002.

Directors' emoluments

	Salaries/ Fees	Other Benefits*	Performance related remuneration and bonus	Compensation for loss of office and termination of employment	Pension Contributions	2002 Total	2001 Total
	£000	£000	£000	£000	£000	£000	£000
Executive							
R G Dunlop	136	1	78	-	-	**215**	-
A J Gibson	203	16	122	-	40	**381**	234
A E G Hambro	112	8	10	250	16	**396**	250
C D Hill	84	7	73	-	13	**177**	-
I W J Patrick	60	6	38	-	8	**112**	-
The Lord Poole	70	5	-	560†	14	**649**	363
Non-executive							
J A Arvis	15	-	-	-	-	**15**	30
K N G Bradley	30	-	-	-	-	**30**	45
D E Coleridge	30	1	-	-	-	**31**	31
G N Kennedy	30	-	-	-	-	**30**	30
A L Thomas	53	-	-	-	-	**53**	75
Overall Total	**823**	**44**	**321**	**810**	**91**	**2,089**	1,058

Mr Dunlop was appointed to the Board on 30 April 2002. Mr Hill and Mr Patrick were appointed to the Board on 8 July 2002. The emoluments for Messrs Dunlop, Hill and Patrick reflect their dates of appointment.

The Lord Poole, Mr Hambro and Mr Patrick had personal pension arrangements during the year to which the Company made contributions. The contributions made by the Company during the year in respect of these arrangements amounted to £13,716 (2001: £57,363) for The Lord Poole, £15,555 (2001: £31,836) for Mr Hambro and £8,051 (2001: £nil) for Mr Patrick.

The Group operates a defined benefit pension scheme (which was closed to new members in 2001) and a defined contribution pension scheme. In 2001 Mr Gibson participated in the defined benefit pension scheme but with effect from 1 January 2002 he transferred from the defined benefit pension scheme to the defined contribution pension scheme. The pension contributions made by the Company during the year in respect of Mr Gibson amounted to £39,922 (2001: accumulated total accrued pension benefits at year end £33,390). Mr Hill also participated in the defined contribution pension scheme during the year. The pension contributions made by the Company during the year in respect of Mr Hill were £12,650 (2001: £nil).

* "Other benefits" includes a company car allowance, life insurance cover and private medical insurance.

† On 26 March 2002, the Company entered into a compromise agreement with The Lord Poole providing for the termination of The Lord Poole's employment with effect from that date. Under this agreement, the Company paid The Lord Poole £560,000 by way of compensation for loss of office and termination of employment. This payment, which was made in April 2002, was disclosed in the Company's 2001 Report and Accounts.

Directors' interests

The interests of the directors who held office at any time during the year and their immediate families in the ordinary shares of 20p each in the Company at 31 December 2002 (or their date of ceasing to hold office if earlier), with comparative figures as at 1 January 2002 (or their date of appointment if later) according to the register of directors' interests, were:

Shares	At 31 December 2002 (or date of ceasing to hold office if earlier)	At 1 January 2002 (or date of appointment if later)	At 31 December 2002	At 1 January 2002
	Beneficial		**As Trustee**	
J A Arvis	142,800	142,800	-	-
K N G Bradley	-	-	-	-
D E Coleridge	6,806,250	6,806,250	673,525	673,525
R G Dunlop	130,000	-	-	-
A J Gibson	350,802	350,802	-	-
A E G Hambro	477,450	477,450	-	-
C D Hill	-	-	-	-
G N Kennedy	30,000	30,000	-	-
I W J Patrick	9,748	9,125	-	-
The Lord Poole	497,951	497,951	-	-
A L Thomas	244,824	132,693	-	-

On 12 March 2003, Mr Dunlop purchased a further 70,000 shares. There were no other changes to the directors' interests in shares between 31 December 2002 and 10 April 2003.

Options to acquire shares	At 1 January 2002 (or date of appointment if later)	Granted during the year	Exercised/ lapsed during the year	At 31 December 2002	Exercise price of options granted, exercised or lapsed
R G Dunlop	-	2,000,000	-	2,000,000	34.5p
A J Gibson	-	2,000,000	-	2,000,000	34.5p
C D Hill	-	1,500,000	-	1,500,000	34.5p
I W J Patrick	-	1,500,000	-	1,500,000	34.5p

Under the terms of the Highway Executive Share Option Plan, the remuneration committee of the Board of the Company may from time to time in its discretion grant options to eligible executives to subscribe for or acquire fully paid ordinary shares of the Company. Performance conditions are set when the grant of options is made and the options cannot normally be exercised unless the conditions have been met.

Options to acquire ordinary shares in the Company were granted to executive directors and senior executives on 6 September 2002. The exercise price of the options is 34.5 pence per share which is the price at which the Company's shares were issued under the Placing and Open Offer in April 2002. The closing mid- market price of the Company's shares on the date of grant was 35.5 pence per share. The options are exercisable between 6 September 2006 and 5 September 2012. The Rules of the Plan provide, inter alia, that in order to vest 100%, the average middle market value of a Highway share, calculated over any three consecutive calendar months expiring no earlier than two years after the grant of the option, should be at least 65 pence. If the average middle market value is equal to 55 pence then only 50% of the options granted will be exercisable. Between 55 pence and 65 pence the options becoming exercisable would increase from 50% to 100% on a straight- line basis.

The market price of the Company's shares on 31 December 2002 was 47.75 pence per share. The highest and lowest market prices during the year were 50.25 pence and 31.5 pence respectively.

The interests of the directors to subscribe for or acquire ordinary shares have not changed since the year end.

Ockham Long Term Incentive Plan

Details of directors' interests under the Ockham Long Term Incentive Plan ("LTIP") are set out opposite. Mr Gibson and Mr Patrick have released the awards that they previously held under the LTIP as a condition of their participation in the Highway Executive Share Option Plan. The Lord Poole released the awards that he previously held under the LTIP as part of a compromise agreement with the Company dated 26 March 2002 providing for the termination of The Lord Poole's employment with effect from that date.

The rules of the LTIP provide that at the end of each three year performance period relating to each award, awards will vest only if the share price achieved has equalled or exceeded, for a period of 90 days during the performance period, a rigorous share price target set at the start of the performance period. Awards can be made at any time from September 1999 for a period of up to five years. The latest performance period ended in September 2002 but no shares vested as the share price target of £1.72 was not met. The two final performance periods in respect of the outstanding awards will end in April 2003 and December 2003 respectively. No awards have vested to date under the LTIP.

	Awards outstanding at 31 December 2001	Awards made during the year	Awards outstanding at 31 December 2002 (or date of ceasing hold office if earlier)
A J Gibson	447,929	-	-
A E G Hambro	268,000	-	268,000
I W J Patrick	164,000	-	-
The Lord Poole	679,190	-	-
Share price target for 100% vesting in 2003			£1.49

During the year to 31 December 2002 and at that date, no contracts of significance subsisted in which a director of the Company was materially interested, other than as disclosed in Note 35 to the financial statements.

By order of the Board
Philip J Lampshire, *Secretary*
7 April 2003

Corporate Governance Statement

The Company is committed to high standards of corporate governance. This statement sets out how the Company has applied the principles set out in "The Combined Code - Principles of Good Governance and Code of Best Practice," as required by the UK Listing Authority.

Board and Board Committees

The Board comprises eleven directors. Of these, Mr Thomas, Mr Barker, Mr Coleridge, Mr Gamble, Ms Kellie and Mr Stoker are non-executive directors. All of the non-executives are considered by the Board to be independent of management for the purposes of the Combined Code. Mr Thomas is the senior independent non-executive director.

The directors' biographies on pages 22 to 23 demonstrate a range of experience and skills sufficient to bring independent judgement on issues of strategy, performance, resources and conduct which is vital to the success of the Group.

Under the Company's Articles of Association directors must retire by rotation, and may stand for re-election by the shareholders, at least every three years.

The Board has six meetings scheduled each year and has a programme which ensures that the directors are able regularly to review corporate strategy and the operations and results of the Group. Appropriate and timely management information is circulated to directors in good time before meetings.

The Board has an Audit Committee, a Remuneration Committee and a Nominations Committee.

Mr Thomas chairs the Audit Committee. The other members of the Committee are Mr Coleridge, Ms Kellie and Mr Dunlop. The Audit Committee meets at least twice a year and its main terms of reference include: review of the Group's financial statements prior to publication; review of the effectiveness of the systems of financial control and monitoring and implementation of the auditors' recommendations.

The Remuneration Committee is chaired by Mr Thomas and meets at least twice a year. The other members of the Committee are Mr Coleridge, Ms Kellie and Mr Stoker.

Mr Dunlop chairs the Nominations Committee. The other members of the Committee are Mr Gibson, Ms Kellie, Mr Thomas and Mr Stoker.

The Directors' Remuneration Report appears on pages 26 to 31.

Statement of Compliance with the Combined Code

The Board considers that the Company complies with the Combined Code and that it has complied throughout the year with the provisions that are of a continuing nature with the exception of the following:

(i) The Board does not have a formal schedule of matters specifically reserved to it for decisions (Code Provision A.1.2) because it has been the Board's view that this has not been appropriate given the size and structure of the Company. The Board will, however, continue to review this as part of its ongoing review of corporate governance.

(ii) The Nominations Committee did not have a majority of non-executive directors at all times during the year (Code Provision A.5.1). The recent appointment of Mr Stoker to the Nominations Committee means that the Committee now contains a majority of non-executive directors.

Internal Control

The Board is ultimately responsible for the Group's system of internal control and reviewing its effectiveness. These systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board has reviewed the effectiveness of the Group's systems of internal control as required by the Combined Code and the Listing Rules and is in a position to monitor the continuing effectiveness of those control systems. These systems are designed to ensure the effectiveness of all internal controls including financial, operational, compliance and risk management and include:

- Clear responsibilities for the production of timely operational and financial information on a weekly, monthly and quarterly basis;
- A comprehensive system of targets and budgets approved annually by the Board;
- Regular consideration by the Board of actual results compared with target, budget and forecasts;
- Clearly defined authorisation limits;
- Establishment of underwriting strategy and monitoring of syndicate performance; and
- Regular reporting of financial, legal, organisational and compliance issues.

An ongoing process, in accordance with the guidance of the Turnbull Committee on internal control, has been established for identifying, evaluating and managing significant risks. The process has been in place for the full year under review and up to the date of approval of the annual report and financial statements.

Going Concern

Having reviewed the financial and cash flow positions of the Company and the Group, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue to operate for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

Relations with Shareholders

The Company is committed to effective dialogue with shareholders and meets regularly with institutional investors to consider the Group's performance and prospects. In particular, meetings are held after the release of the Group's interim and final results. The Company's website, *www.highway-insurance.co.uk* keeps existing and potential investors informed of corporate developments. We will continue to look for ways to improve the site with a view to facilitating dialogue and enhancing our relations with shareholders.

The Company encourages major shareholders and institutional analysts to visit its Brentwood head office to enhance their understanding of the Company.

Independent Auditors' Report

to the Members of Highway Insurance Holdings Plc

We have audited the group's financial statements for the year ended 31 December 2002 which comprise the Group Profit & Loss Account, Group Balance Sheet, Company Balance Sheet, Group Cash Flow Statement, Group Statement of Total Recognised Gains and Losses, the audited section of the Directors' Remuneration Report, accounting policies and the related notes 1 to 35. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Report and Accounts, including the financial statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities in relation to those financial statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

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 the information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed. We review whether the Corporate Governance Statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not.

We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Directors' Report, Chairman's Statement, Chief Executive's Report, Financial Review, Corporate Governance Statement and Directors' Remuneration Report unaudited section. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 group'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 affairs of the company and of the group as at 31 December 2002 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP, *Registered Auditor*
London, 7 April 2003

Statement of Directors' Responsibilities

Financial statements

The directors are required by the Companies Act 1985 to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial period and of the profit or loss of the Group for the financial period.

The directors consider that in preparing the financial statements on pages 36 to 68, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Accounting Policies

Basis of Consolidation

The consolidated financial statements comprise the accounts of Highway Insurance Holdings Plc ("the Company") and its subsidiary undertakings for the year to 31 December 2002.

Ockham Corporate Limited, Highway Corporate Capital Limited and Highway Insurance Company Limited participate in the Highway Insurance business managed by the Group. The accounts have been prepared on an annual accounting basis for these participations.

The New London Capital corporate members participate on syndicates managed by other agents. These participations are accounted for on a three year funded basis, under which the excess of premiums written and attributable net investment return over claims and expenses paid in respect of contracts incepting in an accounting period ("the underwriting year") is carried forward as a technical provision until the end of the third year from the inception of the underwriting year. Consequently no profit is recognised in respect of an underwriting year until that time. Where any syndicate underwriting year is expected to make a loss, the loss is recognised as soon as it is foreseen.

In accordance with Lloyd's practice, the underwriting year is normally recognised as closed after three years of development, at which time any profits are distributed. Each underwriting year of account is considered separately for the purpose of determining any aggregate net profit or loss.

In preparing the financial statements for the current year, the group has adopted FRS 19 'Deferred Tax' and the transitional arrangements of FRS 17 'Retirement Benefits' relating to accounting periods ending on or after 22 June 2002. The adoption of FRS 19 has resulted in a change in accounting policy for deferred tax. Deferred tax is recognised on a full provision basis in accordance with the accounting policy described below.

Previously, deferred tax was provided for on a partial provision basis, whereby provision was made on all timing differences to the extent that they were expected to reverse in the future without replacement. It is not considered that the adoption of FRS 19 has had an impact on the current and prior year tax charge or balance sheet.

Accounting Convention

The audited financial statements have been prepared in accordance with Section 255A of, and Schedule 9A to, the Companies Act 1985 ("the Act") as reflected in the ICAEW Technical Release 1/99 "Accounting by Lloyd's Corporate Capital Vehicles", and in accordance with applicable accounting standards. The recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 1998 have been adopted.

No profit and loss account is presented for the Company as permitted by section 230 of the Act.

The balance sheet of the Company has been prepared in accordance with section 226 of, and Schedule 4 to, the Act.

Goodwill Arising on Consolidation

Goodwill, being the cost of acquisition less the fair value of net assets acquired, incurred prior to 1 January 1998 was offset against reserves. On disposal of a business acquired prior to 1998, the profit or loss is determined after taking into account goodwill previously offset against reserves. Goodwill incurred with effect from 1998 is capitalised as an intangible asset and amortised on a straight line basis over a period of ten years, which the directors consider to be a reasonable estimate of the economic life of such an asset.

Intangible Assets

The costs of acquisition of syndicate capacity are capitalised as an intangible asset and amortised on a straight line basis over a period of ten years, which the directors consider to be a reasonable estimate of the economic life of the Group's interest in the Highway Insurance operations, commencing in the first year in which underwriting income is recognised from that capacity.

Investment in own Shares

The shares are valued at cost, being the open market value of Highway Insurance Holdings Plc shares on the day the shares were purchased.

Premiums

Managed participations

Gross written premiums represent premiums on business incepting during the period together with adjustments to premiums written in previous periods. The provision for unearned premiums represents that part of gross premiums written which is estimated to be earned after the balance sheet date. Outward reinsurance premiums are accounted for in the same accounting period as the gross premiums to which they relate.

Non-managed participations

Gross written premiums represent premiums on business incepting during the period together with adjustments to premiums written in previous periods. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the direct and inward reinsurance business to which they relate.

Claims

Managed participations

Claims incurred include all losses occurring during the year, whether reported or not, related handling costs and any adjustments to claims outstanding from previous years. Outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related claims handling expenses.

Non-managed participations

Paid claims represent all claims paid during the year and include claims handling expenses. Normally each Lloyd's syndicate year of account is kept open for three years at which time it closes into the next year of account of the syndicate based on a reinsurance to close premium estimated by the managing agent. The process of calculating the reinsurance to close will vary from managing agent to managing agent but it is likely to include the use of statistical projections based on previous claims history, case by case reviews of notified losses and the use of security ratings to help assess the financial ability of reinsurers to pay the reinsurance recoveries anticipated of them.

The payment of a reinsurance to close premium does not eliminate totally the liability of the closed year for outstanding claims. If the reinsuring syndicate were unable to meet its obligations and the other elements of the Lloyd's chain of security were to fail, then the members of the closed underwriting year would have to settle outstanding claims. The directors consider that the likelihood of such failure of the reinsurance to close is extremely remote and, therefore the reinsurance to close has been deemed to settle liabilities outstanding at the closure of the underwriting account and no further provision is made for any potential variation in the ultimate liability of that year of account.

Technical Provisions

Claims outstanding

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods. Such methods extrapolate the development of paid and incurred claims, average cost per claim and ultimate claim numbers for each underwriting year, based upon the observed development of earlier years and expected loss ratios. Although the estimate of net outstanding claims is considered to be fair and reasonable, it is implicit in the estimation procedure that ultimate liabilities will be at variance from the amount provided. Any difference between provisions at the balance sheet date and settlements and provisions in the following year is included in the underwriting result for that year.

The main assumptions underlying these techniques is that past claims development experience can be used to project ultimate claims costs. Judgement is used to assess the extent to which past trends may not apply in future, for example to reflect public attitudes to claiming or varying levels of claims inflation. The approach adopted takes into account, inter alia, the nature and materiality of the business and the type of data available.

Skilled claims technicians applying their experience and knowledge to the circumstances of individual claims generally set case estimates. Additional qualitative input, such as allowance for one-off occurrences or changes in legislation, policy conditions or portfolio mix, is used in arriving at the estimated ultimate cost of claims, in order that it represents the most likely outcome, from a range of possible outcomes, taking account of all the uncertainties involved.

Provisions are calculated allowing for reinsurance recoveries and a separate asset is recorded for the reinsurers' share, having regard to collectability.

Unexpired risk provision

A provision for unexpired risks is made when it is anticipated that unearned premiums will be insufficient to meet future claims and claims settlement expenses of business in force at the end of the period.

Acquisition Costs

Managed participations

Acquisition costs, comprising commission and other costs related to the acquisition of insurance contracts, are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

Non-managed participations

Acquisition costs comprise all direct costs arising from the conclusion of insurance contracts. These costs are charged to the profit and loss account as incurred.

Investment Income

Net investment return comprises investment income - including related gains and losses, unrealised gains and losses on investments, investment expenses and interest payable. The longer term return on investments owned by the underlying syndicates, together with the longer term return generated by the Funds at Lloyd's which support the underwriting activities, initially allocated to the non-technical account, is transferred from that account to the technical account. The actual net investment return from other activities is included within the non-technical account as part of operating profit. The difference between the longer term return allocated to the technical account and the actual return achieved on the underlying assets is recorded in the non-technical account as 'Short term fluctuations in investment return'.

Foreign Exchange

Syndicate assets, liabilities, income and expenditure expressed in US dollars and Canadian dollars are translated at the rates of exchange ruling at 31 December. Underwriting transactions in other foreign currencies are included in the financial statements at historical rates. All differences on the translation of foreign currency amounts in the syndicates are dealt with in the technical account; other differences are dealt with in the non-technical account.

The Group's assets expressed in foreign currency relate to monetary assets, which are translated at the rates ruling at the balance sheet date. Exchange differences arising from transactions are taken to the profit and loss account.

Underwriting Agency Fees

These represent net fee income receivable from capital providers.

Profit Commission

Profit commission from managed syndicates are recognised as earned on an annual basis to match the related underwriting profits. Profit commission is receivable when the syndicate's underwriting year of account is closed, this is normally at the end of the three calendar years.

Other Commissions and Fees

Other commissions and fees are made up of overrider fees receivable from reinsurance contracts and net invoiced sales of services, excluding VAT.

Operating Expenses

The Group's operations include the control and payment of expenses, some of which relate to and are recharged to managed syndicates. The residual costs are charged to the profit and loss account as incurred.

Depreciation

Depreciation is calculated to write off the cost of tangible fixed assets on a straight-line basis over their estimated useful economic lives as follows:

Leasehold property	15 years
Leasehold improvements	5 years
Computer hardware	3 to 5 years
Computer software	3 to 10 years
Motor vehicles	3 years

Investments

Financial investments are valued at mid-market price on 31 December. Other investments in the Company balance sheet are stated at cost less amounts written off in respect of a permanent diminution in value.

Pensions

The costs of providing pensions for staff are charged in the profit and loss account over the service lives of the employees in accordance with the recommendations of qualified independent actuaries. Any funding surpluses or deficits, which may arise from time to time, are amortised over the average remaining service lives of the employees. Where staff remuneration is borne by the Group's managed syndicates, the related pension costs are also charged to such syndicates.

Deferred Taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exception:

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on the tax rates and laws enacted or substantively enacted at the balance sheet date.

Leases

Operating lease costs are charged to the profit and loss account in equal annual instalments over the life of the lease.

Assets held under finance leases and hire purchase contracts are capitalised at their fair value on inception of the leases and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease on a straight line basis.

Long Term Incentive Schemes

A provision is set up for an amount equivalent to the amortised portion of the period end market value of shares which have been awarded to participants of the Group's Restricted Share Schemes. Such amortisation is calculated on a straight-line basis over the lives of the related Schemes. Where shares are acquired by, or issued to, Ockham Trust Company Limited, such shares are included in fixed asset investments at the market value of the company's shares on the date those shares were acquired, and the investment is amortised against profits on a straight-line basis over the life of the Scheme.

Group Profit and Loss Account

For the year ended 31 December 2002

Technical Account – General Business

	Note	Continuing £000	Discontinued £000	2002 Total £000	2001 Total £000
Gross premiums written	1	129,064	4,901	133,965	236,582
Outward reinsurance premiums		(9,545)	(2,317)	(11,862)	(94,134)
Net premiums written		119,519	2,584	122,103	142,448
Change in gross unearned premiums		31,309	6,518	37,827	(28,484)
Change in unearned outward reinsurance premiums		(4,738)	(431)	(5,169)	1,648
Change in net unearned premiums		26,571	6,087	32,658	(26,836)
Net earned premiums		146,090	8,671	154,761	115,612
Allocated investment return transferred from the non-technical account		14,127	1,657	15,784	21,624
Other technical income		1,218	-	1,218	-
Total technical income		161,435	10,328	171,763	137,236
Gross claims paid		(147,989)	(19,900)	(167,889)	(208,035)
Reinsurers' share		19,006	7,852	26,858	47,684
Net paid claims		(128,983)	(12,048)	(141,031)	(160,351)
Change in claims provision		(33,519)	14,858	(18,661)	141,340
Reinsurers' share		56,556	(11,466)	45,090	(55,711)
Change in the provision for claims		23,037	3,392	26,429	85,629
Net claims incurred	3	(105,946)	(8,656)	(114,602)	(74,722)
Net operating expenses	1,4	(30,873)	(5,172)	(36,045)	(47,890)
Total technical charges		(136,819)	(13,828)	(150,647)	(122,612)
Balance on the technical account		24,616	(3,500)	21,116	14,624

Group Profit and Loss Account

For the year ended 31 December 2002

Non – Technical Account

	Note	Before Exceptional £000	Exceptional £000	Discontinued £000	2002 Total £000	2001 Total £000
Balance on the technical account		24,616	-	(3,500)	21,116	14,624
Net investment return on a longer term rate of return basis						
Investment income	7	10,932	-	1,518	12,450	18,829
Short term fluctuations in investment return	7	2,284	-	139	2,423	2,131
Net longer term investment return transferred to the technical account	7	(14,127)	-	(1,657)	(15,784)	(21,624)
Other income	1	4,196	-	4	4,200	6,109
Total income		27,901	-	(3,496)	24,405	20,069
Other charges including value adjustments	5	7,953	-	517	8,470	7,461
Operating profit based on longer term investment return before exceptional items	1	19,948	-	(4,013)	15,935	12,608
Loss arising from investment in NMT	5		(12,071)	-	(12,071)	-
Restructuring costs	5	-	(1,178)	-	(1,178)	-
Operating profit based on longer term investment return		19,948	(13,249)	(4,013)	2,686	12,608
Short term fluctuations in investment return	7	(2,284)	-	(139)	(2,423)	(2,131)
Profit on ordinary activities before taxation		17,664	(13,249)	(4,152)	263	10,477
Taxation on profit on ordinary activities	8	(5,318)	405	2,207	(2,706)	(3,300)
Profit/(loss) on ordinary activities after taxation		12,346	(12,844)	(1,945)	(2,443)	7,177
Minority interest		(138)	-	-	(138)	(396)
Profit/(loss) for the financial year		12,208	(12,844)	(1,945)	(2,581)	6,781
Dividends	10	4,911	-	-	4,911	2,986
Retained profit/(loss) for the financial year		7,297	(12,844)	(1,945)	(7,492)	3,795
Earnings per share						
Basic	11	6.9p	(7.2p)	(1.1p)	(1.4p)	5.4p
Diluted	11	6.9p	(7.2p)	(1.1p)	(1.4p)	5.4p

Group Statement of Total Recognised Gains and Losses

There were no recognised gains and losses other than the loss attributable to shareholders of £2,581,000 (2001: profit £6,781,000).

Group Balance Sheet

As at 31 December 2002

Assets	Note	2002 £000	2001 £000
Intangible assets	13	3,498	3,331
Investments			
Other financial investments	14	278,117	270,680
Deposits with ceding undertakings		1	60
Reinsurers' share of technical provisions			
Provision for unearned reinsurance premiums		4,912	10,081
Claims outstanding		105,331	67,469
		110,243	77,550
Debtors			
Debtors arising out of direct insurance operations - intermediaries		43,506	89,058
Debtors arising out of reinsurance operations		11,645	19,503
Other debtors – amounts falling due within one year	17	20,242	13,345
Other debtors – amounts falling due after more than one year	18	6,161	15,447
		81,554	137,353
Other assets			
Tangible assets	12	6,420	1,904
Cash at bank and in hand	15	30,275	24,300
Investment in own shares	16	2,492	2,557
		39,187	28,761
Prepayments and accrued income		6,606	8,406
Deferred acquisition costs		13,582	14,202
Total assets		532,788	540,343

Group Balance Sheet

As at 31 December 2002 (continued)

2001			2002
Liabilities	**Note**	**£000**	**£000**
Capital and reserves			
Called up share capital	22	40,323	25,578
Share premium account	23	16,277	7,210
Merger reserve	23	39,221	39,221
Other reserves	23	1,640	1,640
Profit and loss account	23	(22,196)	(14,704)
Total shareholders' funds – equity	24	75,265	58,945
Minority interest – equity		254	236
Total capital and reserves		75,519	59,181
Technical provisions			
Provision for unearned premiums		78,510	116,338
Claims outstanding		307,934	299,288
		386,444	415,626
Creditors			
Deposits from reinsurers		-	2
Creditors arising out of direct insurance operations		15,509	2,685
Creditors arising out of reinsurance operations		5,879	6,436
Due to credit institutions		-	1,567
Other creditors – amounts falling due within one year	20	9,929	17,100
Other creditors – amounts falling due after more than one year	21	35,845	34,137
		67,162	61,927
Accruals and deferred income		3,663	3,609
Total liabilities		532,788	540,343

Approved by the board of directors and signed on its behalf on 7 April 2003 by:

Ross Dunlop, *Executive Chairman*

Ian Patrick, *Finance Director*

Company Balance Sheet

As at 31 December 2002

	Note	2002 £000	2001 £000
Fixed assets			
Tangible assets	12	79	340
Investment in own shares	16	2,492	2,557
Other financial investments	14	53,733	60,772
		56,304	63,669
Current assets			
Other debtors – amounts falling due within one year	17	129,550	115,797
Other debtors – amounts falling due after more than one year	18	1,530	8,063
Cash at bank and in hand	15	6,392	2,831
		137,472	126,691
Accruals and deferred income		-	(409)
Other creditors – amounts falling due within one year	20	(83,052)	(94,498)
Net current assets		54,420	31,784
Total assets less current liabilities		110,724	95,453
Other creditors – amounts falling due after more than one year	21	(35,000)	(33,000)
Net assets		75,724	62,453
Capital and reserves			
Called up share capital	22	40,323	25,578
Share premium account	23	16,277	7,210
Other reserves	23	1,640	1,640
Profit and loss account	23	17,484	28,025
Total shareholders' funds - equity	24	75,724	62,453

Approved by the board of directors and signed on its behalf on 7 April 2003 by:

Ross Dunlop, *Executive Chairman*

Ian Patrick, *Finance Director*

Group Cash Flow Statement

For the year ended 31 December 2002

	Note	2002 £000	2001 £000
Net cash inflow from operating activities	26	273	4,717
Servicing of finance			
Dividends paid to minorities		(120)	(160)
Interest paid		(2,200)	(1,015)
Interest element of finance lease payments		(38)	-
		(2,358)	(1,175)
Taxation			
Corporation tax (paid)/received		(948)	852
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(5,938)	(396)
Sale of tangible fixed assets		126	312
Purchase of syndicate capacity	13	(642)	-
		(6,454)	(84)
Equity dividends paid		(3,124)	(4,437)
Financing			
Issue of ordinary share capital	22	25,000	-
Expenses of issue	23	(1,638)	-
Capital element of finance leases and hire purchase contracts		(322)	-
Drawdown of bank loan	28	2,000	11,000
		25,040	11,000
		12,429	10,873
Cash flows were invested as follows:			
Increase/(decrease) in cash holdings	28	5,975	(102,379)
Net portfolio investments			
Financial investments	29	6,454	113,252
Net investment of cash flows		12,429	10,873

Notes to the financial statements

For the year ended 31 December 2002

1. Segmental information

Segmental information in the format required by the Companies Act 1985, so far as available, is as follows, and relates entirely to external customers:

(a) Insurance underwriting (in respect of continuing operations)

	Gross premiums written		Gross premiums earned		Gross claims incurred	
	2002	2001	2002	2001	2002	2001
	£000	£000	£000	£000	£000	£000
Motor – third party liability	75,450	134,326	97,206	117,170	119,225	94,469
Motor – other classes	53,614	85,791	63,167	76,280	62,283	63,265
Total	129,064	220,117	160,373	193,450	181,508	157,734

	Net operating expenses		Reinsurance balance	
	2002	2001	2002	2001
	£000	£000	£000	£000
Motor – third party liability	18,684	25,749	44,489	1,216
Motor – other classes	12,189	16,633	16,790	510
Total	30,873	42,382	61,279	1,726

(b) Insurance underwriting (in respect of discontinued operations)

	Gross premiums written		Gross premiums earned		Gross claims incurred	
	2002	2001	2002	2001	2002	2001
	£000	£000	£000	£000	£000	£000
Accident and health	1,249	367	1,249	367	(627)	(19,565)
Motor – third party liability	21	5,168	1,790	5,446	732	(17,299)
Motor – other classes	646	9,787	1,702	7,692	1,754	6,923
Marine, aviation and transport	(141)	1,863	(141)	1,863	316	(99,408)
Fire and other damage to property	1,506	(501)	5,201	(501)	7,047	26,734
Third party liability	2,191	(588)	2,191	(588)	2,958	31,365
Credit and suretyship	17	(316)	17	(316)	22	16,876
Legal expenses	8	(11)	8	(11)	(9)	607
Assistance	-	21	-	21	-	(1,138)
Other	(200)	690	(200)	690	(124)	(36,875)
Reinsurance acceptances	(1,978)	29	(1,978)	29	(4,406)	(1,546)
Reinsurance to close	1,582	(44)	1,580	(44)	(2,621)	2,287
Total	4,901	16,465	11,419	14,648	5,042	(91,039)

	Net operating expenses		Reinsurance balance	
	2002	2001	2002	2001
	£000	£000	£000	£000
Accident and health	1,069	500	(363)	(20,327)
Motor – third party liability	348	1,668	(786)	(21,668)
Motor – other classes	479	1,779	(267)	3,232
Marine, aviation and transport	35	2,538	393	(103,279)
Fire and other damage to property	1,452	(683)	382	27,775
Third party liability	849	(801)	372	32,586
Credit and suretyship	19	(431)	111	17,533
Legal expenses	9	(15)	(29)	630
Assistance	-	29	-	(1,182)
Other	46	942	(137)	(38,307)
Reinsurance acceptances	794	39	(2,841)	(1,607)
Reinsurance to close	72	(57)	(3,197)	2,375
Total	5,172	5,508	(6,362)	(102,239)

Notes to the financial statements

For the year ended 31 December 2002 (continued)

1. Segmental information (continued)

(c) Other operations

	2002 £000	2001 £000
Other income		
Continuing operations:		
Lloyd's underwriting agency fees	2,317	2,604
Lloyd's underwriting profit commission	-	439
Non-risk income	1,879	2,217
Total continuing operations	4,196	5,260
Discontinued operations:		
Lloyd's underwriting profit commission	4	149
Other commissions and fees – Overrider	-	700
Total discontinued operations	4	849
	4,200	6,109

Non-risk income relates to fee income from the premium financing and accident management companies.

	2002 £000	2001 £000
Operating profit based on longer term investment return before exceptional items		
Continuing operations:		
Insurance agencies and underwriting activities	20,873	10,384
Central costs	(925)	(1,700)
Total continuing operations	19,948	8,684
Discontinued operations:		
Insurance agencies and underwriting activities	(3,796)	4,284
Central costs	(217)	(360)
Total discontinued operations	(4,013)	3,924
	15,935	12,608

Discontinued operations consist of the French and Household books of business, the insurance results for the NLC syndicates and the run-off costs associated with the Sturge managing agencies.

Notes to the financial statements

For the year ended 31 December 2002 (continued)

1. Segmental information (continued)

(d) Assets employed

	2002 £000	2001 £000
Continuing operations:		
Insurance activities	96,865	74,547
Centre	2,092	2,249
	98,957	76,796
Unallocated liabilities	(23,438)	(17,615)
Net assets	75,519	59,181

Unallocated liabilities comprise deferred taxation, taxation payable, cash, bank loans, proposed dividends and minority interest.

2. Continuing and discontinued operations

The Group ceased writing business at the end of the 2001 underwriting year for its French and Household operations and at the end of the 1999 underwriting year for the NLC syndicates.

The breakdown of the principal technical figures between these discontinued operations and the Group's continuing operations is as follows:

	Continuing £000	Discont'd £000	2002 Total £000	Continuing £000	Discont'd £000	2001 Total £000
Gross premiums written	129,064	4,901	133,965	220,115	16,467	236,582
Net earned premiums	146,090	8,671	154,761	170,452	(54,840)	115,612
Allocated investment return	14,127	1,657	15,784	15,958	5,666	21,624
Other technical income	1,218	-	1,218	-	-	-
Net claims incurred	(105,946)	(8,656)	(114,602)	(133,011)	58,289	(74,722)
Net operating expenses	(30,873)	(5,172)	(36,045)	(42,382)	(5,508)	(47,890)
Balance on the technical account	24,616	(3,500)	21,116	11,017	3,607	14,624

3. Movement in prior years provisions for claims outstanding

Included within claims incurred in the technical account is an amount of £4,704,000 (2001: £8,004,000) being the difference between the provision for claims outstanding at the beginning of the year less payments made during the year on account of claims incurred in previous years and the provision for claims outstanding at the end of the year for such claims. Of this amount £1,443,000 (2001: £7,845,000) relates to motor business and £3,261,000 (2001: £159,000) relates to property business.

4. Net operating expenses – technical account

	2002 £000	2001 £000
Acquisition costs	26,027	34,842
Movement in deferred acquisition costs	620	1,977
Administrative expenses	9,398	11,071
Total	36,045	47,890

Notes to the financial statements

For the year ended 31 December 2002 (continued)

5. Other charges including value adjustments

	2002 £000	2001 £000
Other charges including value adjustments comprise:		
Continuing operations	7,953	6,929
Discontinued operations	517	532
	8,470	7,461

Operating exceptional items comprising the loss arising from investment in New Millennium Technologies Plc and restructuring costs are classified as other charges including value adjustments which therefore total £21,719,000 (2001: £7,461,000) split £21,202,000 from continuing operations and £517,000 from discontinued operations.

Operating profit is stated after charging the following items (stated gross before recharges to syndicates):

	2002 £000	2001 £000
Depreciation of tangible fixed assets	1,465	642
Amortisation	475	472
Operating leases rentals (see Note 34):		
Land and buildings	1,125	1,233
Auditors' remuneration:		
Audit fees, including Company £50,000 (2001: £44,000)	125	98
Other services	248	150
Release of LTIP provision	-	(750)

6. Employees

(a) Staff costs (including directors)

	2002 £000	2001 £000
Salaries, bonus and commission	15,262	14,503
Social security	1,377	1,231
Other pension costs	1,212	1,338
Other staff costs	1,824	1,252
	19,675	18,324

(b) Number of staff (including directors)

	Average for the year		At 31 December	
	2002	2001	2002	2001
Continuing operations:				
Insurance activities	591	702	577	643
Centre	10	16	-	13
	601	718	577	656

(c) Directors' emoluments

Full details of directors' emoluments and their interests in the ordinary share capital of the Company are included in the Directors' Remuneration Report on pages 26 to 31.

Notes to the financial statements

For the year ended 31 December 2002 (continued)

7. Net investment income

	2002 £000	2001 £000
Investment income	9,673	20,491
Realised gains on investments	4,776	825
Unrealised gains/(losses) on investments	923	(769)
	15,372	20,547
Losses on realisation of investments	(1,052)	(348)
Interest paid	(1,870)	(1,370)
Net investment income	12,450	18,829

Analysed as:

	2002 £000	2001 £000
Underwriting investment income on a long term rate of return basis transferred to technical account	15,784	21,624
Non-underwriting investment income	959	706
Loan interest payable	(1,870)	(1,370)
Net investment return	14,873	20,960
Short term fluctuations in investment return	(2,423)	(2,131)
Total investment income	12,450	18,829

The transfer to the technical account represents the estimated long-term rate of return of 5.5% (2001: 6.5%) applied to the investment assets and solvency capital held by the Group's insurance businesses.

The longer-term rate of return is based on a combination of historical experience and current expectations for each category of investment.

The longer-term rates of return used were:

	2002 %	2001 %
Debt securities and other fixed income securities	5.5	6.5
Deposits with credit institutions	5.5	6.5

Notes to the financial statements

For the year ended 31 December 2002 (continued)

8. Taxation on profit on ordinary activities

(a) Analysis of charge for the year

	2002 £000	2001 £000
UK corporation tax		
Current tax on profits for the year	(153)	(410)
Adjustments in respect of prior years	(61)	(874)
Current tax charge	(214)	(1,284)
Current year	(4,345)	(2,016)
Adjustments in respect of prior years	1,853	-
Deferred tax charge	(2,492)	(2,016)
Total tax charge	(2,706)	(3,300)

The charge for tax on profit for the year is based on a UK corporation tax rate of 30% (2001: 30%).

(b) Factors affecting tax charge for the period

A reconciliation of the charge that would result from applying the standard UK corporation tax rate to profit before tax to the current tax charge for the year is given below:

	2002 £000	2001 £000
Profit on ordinary activities before tax	263	10,477
Tax charge thereon at UK corporation tax rate of 30%	79	3,143
Factors affecting charge:		
Expenses not deductible for tax purposes (including goodwill amortisation)	640	141
Decrease in accelerated capital allowances	210	-
Expenses not deductible in relation to the loss on New Millennium Technologies Plc		3,492
Expenses not deductible in relation to group restructuring	78	-
Deferred tax on accrued underwriting result	(2,045)	(2,576)
Losses arising in the year relievable against current tax	(1,945)	(298)
Other	(356)	-
Tax underprovided in previous years	61	874
Current tax charge	214	1,284

(c) Factors affecting tax charge for the period

The Group has capital losses carried forward of £47,946,862 (2001: £29,538,598). It is not anticipated that the Group will make any capital gains in the near future.

Notes to the financial statements

For the year ended 31 December 2002 (continued)

9. Loss for the financial year

	2002 £000	2001 £000
Loss before dividend for the financial year attribute to the shareholders dealt within the accounts of the Company	(5,630)	(1,710)

10. Dividends

	2002 £000	2001 £000
Interim paid of 0.8p per Highway share (2001: 0.8p per share)	1,581	994
Final proposed of 1.68p per Highway share (2001: 1.6p per share)	3,330	1,992
	4,911	2,986

11. Earnings per share

	2002 £000	2001 £000
(Loss)/profit for the financial year	(2,581)	6,781

	Number of shares	Number of shares
Weighted number of shares in issue excluding LTIP shares	177,990,624	124,514,670
Basic (loss)/profit per share	(1.4p)	5.4p
Diluted (loss)/profit per share	(1.4p)	5.4p

Notes to the financial statements

For the year ended 31 December 2002 (continued)

12. Tangible assets

Group	Leasehold property £000	Leasehold improvements £000	Computer and other equipment £000	Motor vehicles owned £000	Total £000
Cost					
At 1 January 2002	268	1,427	5,194	658	7,547
Additions	-	-	6,114	47	6,161
Disposals	-	(176)	(9)	(272)	(457)
At 31 December 2002	268	1,251	11,299	433	13,251
Accumulated depreciation					
At 1 January 2002	79	1,168	3,948	448	5,643
Charge for the year	18	61	1,286	100	1,465
Disposals	-	(48)	-	(229)	(277)
At 31 December 2002	97	1,181	5,234	319	6,831
Net book value					
At 31 December 2002	171	70	6,065	114	6,420
At 31 December 2001	189	259	1,246	210	1,904

Leasehold property has a life of 15 years.

Leasehold improvements are in respect of leases with a life of under 50 years.

With the exception of leasehold property, which is shown separately, there is £678,571 (2001: £736,000) of computer and other equipment held under finance leases and hire purchase contracts, included in the table above.

Company	Leasehold property £000	Computer and other equipment £000	Motor vehicles owned £000	Total £000
Cost				
At 1 January 2002	527	274	70	871
Additions	-	2	-	2
Disposals	(176)	(7)	(70)	(253)
At 31 December 2002	351	269	-	620
Accumulated depreciation				
At 1 January 2002	278	199	54	531
Charge for the year	61	51	3	115
Disposals	(48)	-	(57)	(105)
At 31 December 2002	291	250	-	541
Net book value				
At 31 December 2002	60	19	-	79
At 31 December 2001	249	75	16	340

Notes to the financial statements

For the year ended 31 December 2002 (continued)

13. Intangible assets

Group	Goodwill arising on consolidation £000	Syndicate capacity acquisition £000	Total £000
Cost			
At 1 January 2002	941	3,769	4,710
Acquisition of syndicate capacity	-	642	642
At 31 December 2002	941	4,411	5,352
Amortisation			
At 1 January 2002	376	1,003	1,379
Charge for the year	94	381	475
At 31 December 2002	470	1,384	1,854
Net book value			
At 31 December 2002	471	3,027	3,498
At 31 December 2001	565	2,766	3,331

14. Investments

	Syndicate participations £000	Corporate undertakings 2002 £000	Group £000	Syndicate participations £000	Corporate undertakings 2001 £000	Group £000
Other financial investments						
Interest-bearing deposits held as security by the Corporation of Lloyd's	-	19,721	19,721	-	18,250	18,250
Shares and other variable-yield securities and units in unit trusts	584	-	584	1,533	-	1,533
Debt securities and other fixed income securities	55,665	61,631	117,296	140,243	103,292	243,535
Deposits with credit institutions	61,392	78,624	140,016	2,991	-	2,991
Other	-	500	500	3,871	500	4,371
	117,641	160,476	278,117	148,638	122,042	270,680

	Company 2002 £000	Company 2001 £000
Investments in Group undertakings and participating interests		
Shares in subsidiary undertakings	53,733	60,772
	53,733	60,772

Notes to the financial statements

For the year ended 31 December 2002 (continued)

14. Investments (continued)

	Corporate undertakings 2002 £000	Corporate undertakings 2001 £000
Listed investments at market value	61,631	103,292
Value of investments held at 1 January	103,292	80,368
Additions at cost	443,031	283,960
Sales at cost	(484,863)	(260,077)
Unrealised appreciation/(depreciation)	171	(959)
Value of investments held at 31 December	61,631	103,292

The interest-bearing deposits are secured by Lloyd's premium trust deed to the Society of Lloyd's.

The Company's investments in Highway Group Services Plc and SLA Holdings Limited of £38,132,000 (2001: £38,044,000) are secured by a first legal charge to Lloyds TSB Bank Plc.

Further details of subsidiary undertakings are given on page 69.

15. Cash at bank and in hand

	Syndicate participations	Corporate undertakings	Group 2002	Syndicate participations	Corporate undertakings	Group 2001	Company 2002	Company 2001
	£000	£000	£000	£000	£000	£000	£000	£000
Cash at bank and in hand	21,310	8,886	30,196	13,028	3,650	16,678	6,392	2,831
Cash held in PTF's	79	-	79	7,622	-	7,622	-	-
	21,389	8,886	30,275	20,650	3,650	24,300	6,392	2,831

Notes to the financial statements

For the year ended 31 December 2002 (continued)

16. Investment in own shares

	Group corporate undertakings 2002 £000	Company 2002 £000
Cost		
At 1 January and 31 December 2002	2,557	2,557
Amortisation		
At 1 January 2002	-	-
Charge for the year	(65)	(65)
At 31 December 2002	(65)	(65)
Net book value		
At 31 December 2002	2,492	2,492
At 1 January 2002	2,557	2,557

There were 3,372,906 Highway Insurance Holdings Plc shares held at 31 December 2002 (2001: 3,372,906). The market valuation was £1,610,563 (2001: £1,484,079). The rights to dividends are waived on these shares.

17. Other debtors – amounts falling due within one year

	Syndicate participations	Corporate undertakings	Group	Syndicate participations	Corporate undertakings	Group	Company	Company
			2002			2001	2002	2001
	£000	£000	£000	£000	£000	£000	£000	£000
Subsidiary undertakings	-	-	-	-	-	-	129,078	115,295
Other syndicate debtors	18,647	-	18,647	9,376	-	9,376	-	-
Other debtors	-	1,595	1,595	-	3,969	3,969	122	502
Taxation recoverable	-	-	-	-	-	-	350	-
	18,647	1,595	20,242	9,376	3,969	13,345	129,550	115,797

18. Other debtors – amounts falling due after more than one year

	Group corporate undertakings		Company	
	2002	2001	2002	2001
	£000	£000	£000	£000
Subsidiary undertakings	-	-	1,400	1,400
Deferred taxation	6,161	8,653	130	-
Other	-	6,794	-	6,663
	6,161	15,447	1,530	8,063

Included in Other is £nil (2001: £6,663,000) receivable from New Millennium Technologies Plc.

Notes to the financial statements

For the year ended 31 December 2002 (continued)

19. Deferred tax

The amounts provided for deferred tax are set out below:

	Group corporate undertakings		Company	
	2002	2001	2002	2001
	£000	£000	£000	£000
Accelerated capital allowances	523	-	130	-
Trading losses available for carry forward	6,373	10,522	-	-
Other timing differences	(735)	(1,869)	-	-
	6,161	8,653	130	-

Deferred tax asset	Group corporate undertakings	Company
	£000	£000
At 1 January 2002	8,653	-
Origination and reversal of timing differences	(4,345)	130
Adjustments in respect of prior periods	1,853	-
At 31 December 2002	6,161	130

The Group has no unprovided deferred tax liabilities. (see also Note 8c)

20. Other creditors – amounts falling due within one year

	Syndicate participations	Corporate undertakings	Group	Syndicate participations	Corporate undertakings	Group	Company	Company
			2002			2001	2002	2001
	£000	£000	£000	£000	£000	£000	£000	£000
Subsidiary undertakings	-	-	-	-	-	-	78,914	89,936
Other syndicate creditors	2,841	-	2,841	12,259	-	12,259	-	-
Other creditors	-	2,896	2,896	-	1,623	1,623	724	505
Corporation tax	-	154	154	-	666	666	-	2,005
Social security costs	-	360	360	-	367	367	84	60
Proposed dividend	-	3,330	3,330	-	1,992	1,992	3,330	1,992
Finance leases	-	348	348	-	193	193	-	-
	2,841	7,088	9,929	12,259	4,841	17,100	83,052	94,498

Notes to the financial statements

For the year ended 31 December 2002 (continued)

21. Other creditors – amounts falling due after more than one year

	Group corporate undertakings		Company	
	2002	2001	2002	2001
	£000	£000	£000	£000
Bank loan	35,000	33,000	35,000	33,000
Other loan	500	500	-	-
Finance leases	345	637	-	-
	35,845	34,137	35,000	33,000

The Group has a £50 million debt facility from Lloyds TSB Bank Plc which is secured on the assets of the Group. £15 million of this facility remains undrawn at 31 December 2002. The first repayment under this facility is due in 2004, with repayment in full by 2007. The £35 million debt facility is repayable in full between 2 and 5 years. The Other loan was procured by Security Re, Inc., a subsidiary of the Orion Capital Corporation, in order to fund NLC Name No. 7 Limited. The loan is interest free and forms part of the Funds at Lloyd's of NLC Name No. 7 Limited. The loan has no fixed repayment date.

22. Called up share capital

Company	Number of shares	2002 £000	Number of shares	2001 £000
Ordinary 20p shares:				
Authorised	274,999,998	55,000	149,999,998	30,000
Allotted, issued and fully paid	201,615,316	40,323	127,887,576	25,578

72,469,626 Ordinary 20p shares with a nominal value of £14,493,925 were issued by way of a placing and open offer. The consideration received amounted to £25,000,021.

600,398 Ordinary 20p shares with a nominal value of £120,080 were issued to existing shareholders who had elected to receive new shares in lieu of the dividend paid in respect of the year ended on 31 December 2001. The consideration received amounted to £213,142.

657,716 Ordinary 20p shares with a nominal value of £131,543 were issued to existing shareholders who had elected to receive new shares in lieu of the interim dividend paid in respect of the six months ended on 30 June 2002. The consideration received amounted to £236,120.

Under the Sale and Purchase Agreement of 1 December 1997, Warrants to subscribe for 5 million Ordinary 20p shares in Highway Insurance Holdings Plc were issued to the US Investors from whom the Company acquired 42% of the issued share capital of Highway Group Services Plc. These Warrants, which were valued in aggregate at £150,000, can be exercised at 125p per share at any time between the second and eighth anniversary of completion of the Agreement.

Notes to the financial statements

For the year ended 31 December 2002 (continued)

23. Reserves

Group	Share premium account £000	Capital redemption reserve £000	Merger reserve £000	Other reserves £000	Profit and loss account £000
At 1 January 2002 – as previously reported	7,911	710	37,810	1,640	(14,704)
Prior year adjustment	(701)	(710)	1,411	-	-
At 1 January 2002 – as restated	7,210	-	39,221	1,640	(14,704)
Retained loss for the financial year	-	-	-	-	(7,492)
Placing and open offer	10,508	-	-	-	-
Placing expenses	(1,638)	-	-	-	-
Scrip issue final dividend 2001	93	-	-	-	-
Scrip issue interim dividend 2002	104	-	-	-	-
At 31 December 2002	16,277	-	39,221	1,640	(22,196)

The restatement of the capital redemption reserve, merger reserve and share premium account has been made to align the Group reserves to the parent company.

Company	Share premium account £000	Other reserves £000	Profit and loss account £000
At 1 January 2002	7,210	1,640	28,025
Retained loss for the financial year	-	-	(10,541)
Placing and open offer	10,508	-	-
Placing expenses	(1,638)	-	-
Scrip issue final dividend 2001	93	-	-
Scrip issue interim dividend 2002	104	-	-
At 31 December 2002	16,277	1,640	17,484

24. Reconciliation of movements in shareholders' funds – equity

	Group		Company	
	2002 £000	2001 £000	2002 £000	2001 £000
(Loss)/profit for the financial year	(2,443)	7,177	(5,630)	(1,710)
Minority interest	(138)	(396)	-	-
Dividends	(4,911)	(2,986)	(4,911)	(2,986)
Retained (loss)/profit for the financial year	(7,492)	3,795	(10,541)	(4,696)
Placing and open offer	25,000	-	25,000	-
Placing expenses	(1,638)	-	(1,638)	-
Scrip issue final dividend 2001	214	492	214	492
Scrip issue interim dividend 2002	236	124	236	124
Net increase/(decrease) in shareholders' funds	16,320	4,411	13,271	(4,080)
Shareholders' funds – equity at 1 January	58,945	54,534	62,453	66,533
Shareholders' funds – equity at 31 December	75,265	58,945	75,724	62,453

Notes to the financial statements

For the year ended 31 December 2002 (continued)

25. Restatement of 2001 comparatives for NLC data

Some syndicates in which the NLC corporate vehicles participated closed at 31 December 2002. The financial statements for the year ended 31 December 2002 treat the reinsurance to close as effecting at that date. Certain balance sheet comparatives at 31 December 2001, which previously treated reinsurance to close as effecting after the balance sheet date, have been adjusted, in line with industry practice, to conform to the presentation adopted during the current year. This restatement has resulted in a reduction in the technical provisions – claims outstanding, reinsurers' share of technical provisions – claims outstanding and investments at 31 December 2001 of £85,413,000, £35,253,000 and £50,160,000 respectively, from the balances previously reported.

26. Reconciliation of operating profit to net cash inflow from operating activities

	2002 £000	2001 £000
Operating profit	263	10,477
Depreciation	1,465	642
Amortisation	475	472
Interest on borrowings	1,886	1,370
Changes to market value – (increase)/decrease	(924)	1,867
Sale of tangible fixed assets	53	-
Amortisation of investment in own shares	65	-
Write-off of debtor in New Millennium Technologies Plc	6,663	-
Debtors – decrease/(increase)	16,355	(14,512)
Creditors – (decrease)/increase	(26,028)	4,528
Provisions for other risks and charges – decrease	-	(127)
Net cash inflow from operating activities	273	4,717

27. Movement in opening and closing portfolio investments net of financing

	2002 £000	2001 £000
Increase/(decrease) in cash holdings	5,975	(102,379)
Cash flow – drawdown of bank loan	(2,000)	(11,000)
Cash flow – net portfolio investments	6,454	113,252
Cash flow – finance leases and hire purchase contracts	(360)	-
Net movement arising from cashflows	10,069	(127)
Changes to market value	924	(1,867)
Non cash changes	223	830
Total movement in portfolio investments net of financing	11,216	(1,164)
Portfolio net of financing at 1 January	262,370	263,534
Portfolio net of financing at 31 December	273,586	262,370

Notes to the financial statements

For the year ended 31 December 2002 (continued)

28. Movement in cash and portfolio investments

	1 January 2002 £000	Cash flow £000	Changes to market value £000	Non cash changes £000	31 December 2002 £000
Net cash:					
Cash	16,678	13,518	-	-	30,196
Cash held in Premium Trust Funds	7,622	(7,543)	-	-	79
	24,300	5,975	-	-	30,275
Other financial investments	270,680	6,513	924	-	278,117
Deposits with ceding undertakings	60	(59)	-	-	1
Bank loan	(33,000)	(2,000)	-	-	(35,000)
Other loan	(500)	-	-	-	(500)
Finance leases and hire purchase contracts	830	(360)	-	223	693
Total	262,370	10,069	924	223	273,586

29. Net cash inflow on portfolio investments

	2002 £000	2001 £000
Interest bearing deposits held as security by the Corporation of Lloyd's	1,471	(10,815)
Shares and other variable-yield securities and units in unit trusts	(949)	(3,139)
Debt securities and other fixed income securities	(126,550)	127,268
Deposits with credit institutions	136,412	(136)
Deposits with ceding undertakings	(59)	46
Other	(3,871)	28
Total	6,454	113,252

30. Pensions

The Group has two pension schemes – a defined contribution scheme and a defined benefit scheme.

The defined contribution scheme covers the majority of the Group's employees and directors.

The defined benefit scheme is closed to all employees other than those who were aged over 50 years of age as at September 2000. The funds of the scheme are controlled by trustees and are administered externally. Since the defined benefit scheme is now closed to new members and the age profile of the active members is increasing, under the projected unit method, the current service cost will increase as the members of the scheme approach retirement.

An independent qualified actuary carried out the latest actuarial valuation of this scheme as at 31 December 2001 using the projected unit method to value the liabilities. The market value of the Scheme's assets was £65,503,000 and the level of funding at that date was some 103%. The actuary recommended that the next actuarial valuation of the Scheme be conducted no later than 31 December 2004.

Notes to the financial statements

For the year ended 31 December 2002 (continued)

30. Pensions (continued)

The assumptions used in the valuation of the Ockham Pension Scheme as at 31 December 2001 were:

	Percentage per annum
Rate of return on investments before retirement	7.00
Rate of return on investments after retirement	5.50
Increase in earnings	3.50
Increase in pensions in course of payments and deferred pensions	5.00

The Company has agreed with the actuary to maintain contributions into the Ockham Pension Scheme at the rate of 23.6% of pensionable salary.

The total cost of pensions during the year, including amounts recharged to the insurance operations, was £1,212,000 (2001: £1,338,000).

	2002 £000	2001 £000
Defined contribution scheme	862	317
Defined benefit scheme	350	1,021
	1,212	1,338

FRS 17 Retirement Benefits

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuations, updated to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 December 2002.

The main financial assumptions used to calculate scheme liabilities under FRS 17 are:

	Percentage per annum 2002	Percentage per annum 2001
Discount rate	5.50	5.75
Rate of increase of pensions in payment and deferred pensions	5.00	5.00
Increase in earnings	2.35	2.50
Inflation assumption in course of payments and deferred pensions	2.35	2.50

Notes to the financial statements

For the year ended 31 December 2002 (continued)

30. Pensions (continued)

The assets and liabilities of the scheme, attributable to defined benefit members, and the expected rate of return were:

	Long-term rate of return expected at 31 December 2002	Fair value at 31 December 2002 £000	Long-term rate of return expected at 31 December 2001	Fair value at 31 December 2001 £000
Equities	7.0%	39,546	7.5%	53,000
Bonds	4.5%	11,599	5.0%	10,500
Cash	4.0%	1,338	3.25%	2,700
Total market value of assets		52,483		66,200
Actuarial value of liability		(68,871)		(66,000)
(Deficit)/recoverable surplus in the scheme		(16,388)		200
Related deferred tax asset/(liability)		4,916		(60)
Net pension (liability)/asset		(11,472)		140

The following amounts would be reflected in the profit and loss account and statement of total recognised gains and losses on implementation of FRS 17:

Amount that would be charged to operating profit:

	2002 £000
Current service cost	253
Past service cost	-
	253

Amounts that would be credited to finance income:

	2002 £000
Expected return on pension scheme assets	4,512
Interest on pension scheme liabilities	(3,731)
	781

Amount that would be recognised in the statement of total recognised gains and losses:

	2002 £000
Actual return less expected return on scheme assets	(16,029)
Experience gains and losses arising on scheme liabilities	1,158
Changes in assumptions underlying the present value of the scheme liabilities	(2,509)
Actual losses recognised	(17,380)

Notes to the financial statements

For the year ended 31 December 2002 (continued)

30. Pensions (continued)

Movement in surplus/(deficit) in the scheme over the year is as follows:

	2002 £000
Surplus as at 1 January 2002	200
Movement in year:	
Current service cost	(253)
Contributions	264
Past service costs	-
Other finance income	781
Actuarial loss	(17,380)
Deficit as at 31 December 2002	(16,388)

History of experience gains and losses	Year to 31 December 2002 £000
Actual return less expected return on scheme assets:	
Amount	(16,029)
Percentage of scheme assets at balance sheet date	31%
Experience gains and losses on scheme liabilities:	
Amount	1,158
Percentage of scheme liabilities at balance sheet date	2%
Total amount recognised in statement of total recognised gains and losses:	
Amount	(17,380)
Percentage of scheme liabilities at balance sheet date	25%

Reconciliation of profit and loss account reserve on a FRS 17 basis:

	2002 £000	2001 £000
Profit and loss account reserve as reported at 31 December	(22,196)	(14,704)
Pension and post retirement FRS 17 liabilities net of tax	(11,472)	140
Profit and loss reserve on a FRS 17 basis at 31 December	(33,668)	(14,564)

Notes to the financial statements

for the year ended 31 December 2002 (continued)

31. Guarantees

	Group corporate undertakings		Company	
	2002	2001	2002	2001
	£000	£000	£000	£000
Bank guarantees with respect to employees' and former employees' membership of Lloyd's	187	237	-	-
Guarantee required by the Corporation of Lloyd's with regard to the financial recourses of subsidiary undertakings which are managing and members agencies	2,000	2,000	-	-
Guarantees to Barclays Bank plc on behalf of Encompass Holdings PLC	-	3,088	-	3,088
Indemnities on behalf of New Millennium Technologies Plc	-	803	-	803

32. Litigation

The majority of actions against the Group's managing and members' agency subsidiary undertakings in respect of the Lloyd's market litigation have now been either discontinued or dismissed.

There remain a small number of actions outstanding where there has been no activity but where writs have not been formally dismissed. There also remains a possibility that a small minority of Names who did not accept the Lloyd's Settlement Offer might decide to pursue litigation against the Group. Nonetheless the Directors consider that the likelihood of any residual litigation having a material adverse effect on the financial position of the Group is minimal.

33. Capital commitments

No expenditure has been authorised and not provided for.

34. Lease commitments

Amounts due under finance leases and hire purchase contracts:

	2002	2001
	£000	£000
Commitments expiring:		
Within one year	348	193
Two to five years	345	637
	693	830
Less finance charges allocated to future periods	(78)	(94)
	615	736

Notes to the financial statement

for the year ended 31 December 2002 (continued)

34. Lease commitments (continued)

The Group has annual operating lease commitments, a portion of which will either be paid directly by managed syndicates or recharged to them as incurred, as follows:

	Land and buildings	
	2002	2001
	£000	£000
Commitments expiring:		
Within one year	18	-
Two to five years	169	295
Over five years	938	938
	1,125	1,233

35. Related party transactions

The following information regarding related party transactions is given in accordance with FRS 8 for the year to 31 December 2002:

(a) Managed syndicates

Expenses incurred by the Group and recharged to Highway Motor Syndicate 37 amounted to £495,000 (2001: £3,933,000). Amounts owed by Highway Motor Syndicate 37 to the Group was £nil (2001: £286,425).

Directors supported the Highway Motor Syndicate 37 for capacity of £335,782 during the 2002 year of account (2001: £324,312). The Group received managing agency fees of £3,358 (2001: £3,243) with respect to this underwriting and received profit commission of £nil with respect to the 1999 year of account (2001: £nil with respect to the 1998 year of account).

b) Other transactions with key management

Motor insurance has been purchased from Highway Insurance Company an FSA regulated entity, and Highway Motor Syndicates 37 and 2037. The value of these transactions are not material to the Group, the Syndicates or the key management concerned.

Subsidiary Undertakings

As at 31 December 2002

Motor and Personal Lines Insurance Operations	
Highway Group Services Plc*	Intermediate holding company
Ockham Corporate Limited	Corporate member of Lloyd's
Highway Corporate Capital Limited*	Corporate member of Lloyd's
Highway Insurance Company Limited	FSA regulated insurance company
Highway Premium Finance Limited	Premium financing company
Ockham Personal Investments Limited	Intermediate holding company
Highway Insurance Agency Limited	Lloyd's managing agency
Crusader Uninsured Loss Recovery Limited**	Claims management company
New London Capital	
New London Capital plc*	Investment company
New London Capital Holdings Limited	Intermediate holding company and manager of underwriting capacity at Lloyd's on behalf of third parties
NLC Name No. 1 Limited	Corporate member of Lloyd's
NLC Name No. 2 Limited	Corporate member of Lloyd's
NLC Name No. 3 Limited	Corporate member of Lloyd's
NLC Name No. 4 Limited	Corporate member of Lloyd's
NLC Name No. 5 Limited	Corporate member of Lloyd's
NLC Name No. 7 Limited***	Corporate member of Lloyd's
Other Continuing Operations	
Ockham Trust Company Limited*	Guernsey trust company
Other Discontinued Operations	
Ockham.com Limited*	Technology investment company
SLA Holdings Limited*	Intermediate holding company
SMSM Limited	Lloyd's managing agency
SNSM Limited	Lloyd's managing agency
RWS Agency Limited	Lloyd's managing agency
SLA Mem D Limited	Lloyd's managing agency
Stafford Run-Off Agency Limited	Lloyd's managing agency

Notes:

Unless otherwise stated, the Group owned 100% of the equity share capital and voting rights of the undertakings which operate in the United Kingdom and are registered in England and Wales.

During the year a number of Group subsidiary undertakings have been liquidated.

Undertakings, which in the opinion of the directors did not materially affect the results or assets of the Group, are not shown.

* Indicates held directly by Highway Insurance Holdings Plc.

** The Group owns 60% of the equity share capital and voting rights.

*** NLC Name No.7 Limited is excluded from consolidation in accordance with Section 229 of the Act and FRS 2, on the grounds that this investment is immaterial and confers no economic interest to the Group.

Consolidated Five-Year Summary

Profit and loss account

	Annual accounting 2002 £000	Annual accounting 2001 £000	Annual accounting 2000 £000	Annual accounting 1999 £000	Fund accounting 1998 £000
Technical account for general business					
Net premiums earned (1998 written)	154,761	115,612	202,869	159,840	135,000
Allocated investment return	15,784	21,624	17,804	8,114	8,761
Other technical income	1,218	-	-	-	-
Claims incurred, net of reinsurance	(114,602)	(74,722)	(189,060)	(133,914)	(104,384)
Net operating expenses	(36,033)	(47,579)	(41,434)	(41,927)	(36,646)
Personal expenses	(12)	(311)	853	(3,013)	(9,105)
Balance on the technical account for general business	21,116	14,624	(8,968)	(10,900)	(6,374)
Non technical account					
Balance on the technical account for general business	21,116	14,624	(8,968)	(10,900)	(6,374)
Other income – including investment income	3,289	5,445	4,307	10,384	19,715
Total income	24,405	20,069	(4,661)	(516)	13,341
Other charges	8,470	7,461	5,535	10,234	22,332
Operating profit/(loss) before exceptional items:	15,935	12,608	(10,196)	(10,750)	(8,991)
Loss from interests in associated undertakings	-	-	-	-	(805)
Future losses on discontinued operations:					
Utilised	-	-	-	-	377
Written back	-	-	-	-	223
Exceptional items	(13,249)	-	-	1,326	10,977
Operating profit based on longer term investment return	2,686	12,608	(10,196)	(9,424)	1,781
Short term fluctuations in investment return	(2,423)	(2,131)	1,348	(1,024)	-
Net interest and other income receivable	-	-	-	-	8,511
Profit/(loss) on ordinary activities before taxation	263	10,477	(8,848)	(10,448)	10,292
Taxation on profit/(loss) on ordinary activities	(2,706)	(3,300)	6,732	5,226	(3,496)
(Loss)/profit after taxation	(2,443)	7,177	(2,116)	(5,222)	6,796
Minority interests	(138)	(396)	-	-	106
(Loss)/profit for the financial period	(2,581)	6,781	(2,116)	(5,222)	6,902
Dividends	4,911	2,986	6,028	5,966	9,098
Retained (loss)/profit for the financial period	(7,492)	3,795	(8,144)	(11,188)	(2,196)
(Loss)/earnings per share	(1.4p)	5.4p	(1.7p)	(4.2p)	5.6p
Highway dividends per share	2.48p	2.4p	4.9p	4.9p	4.8p
New London Capital dividends per share (see Note 1)	-	-	-	-	7.16p

Note: 1. The NLC dividend for the year to 31 December 1998 of 7.16p excludes the element of the final Ockham dividend payable to the former shareholders of NLC, which amounts to 3.2p per Ockham share or the equivalent of 3.84p per NLC share.

Note: 2. In 2000 the Group changed its accounting policy from a three year funded basis to a one year earned basis. The figures presented in the consolidated five year summary are on an annual accounting basis for 2002, 2001, 2000 and 1999. The year 1998 is presented on a three year funded basis.

Consolidated Five-Year Summary (continued)

Balance sheet

	Annual accounting 2002 £000	Annual accounting 2001 £000	Annual accounting 2000 £000	Annual accounting 1999 £000	Fund accounting 1998 £000
Assets					
Fixed assets	290,528	278,532	216,757	180,809	194,736
Current assets	242,260	261,811	395,541	365,597	246,480
Total assets	532,788	540,343	612,298	546,406	441,216
Liabilities					
Called up share capital	40,323	25,578	25,286	25,286	25,286
Share premium account	16,277	7,210	7,587	7,587	7,671
Merger reserve	39,221	39,221	38,520	38,520	39,418
Other reserve	1,640	1,640	1,640	1,640	1,640
Profit and loss account	(22,196)	(14,704)	(18,499)	(10,355)	115
Minority interests	254	236	-	-	-
	75,519	59,181	54,534	62,678	74,130
Creditors due within one year	34,980	31,399	20,254	22,378	44,782
Creditors due after one year	35,845	34,137	22,500	500	2,000
Provisions	386,444	415,626	515,010	460,850	320,304
Total liabilities	532,788	540,343	612,298	546,406	441,216

Notice of
Annual General Meeting

Notice is hereby given that the Annual General Meeting of Highway Insurance Holdings Plc will be held at Highway House, 171 Kings Road, Brentwood, Essex CM14 4EJ on Wednesday 21 May 2003 at 11.00 am to transact the following business:

Ordinary Business

Resolution 1
To receive the directors' report and the accounts of the Company for the year ended 31 December 2002 together with the auditors' report thereon.

Resolution 2
To declare a final dividend of 1.68 pence per Ordinary Share.

Resolution 3
To re-appoint Andrew James Gibson as a director of the Company who retires by rotation in accordance with Article 89.1.

Resolution 4
By separate resolutions, to re-appoint as directors of the Company the following who have been appointed since the last annual general meeting and who retire in accordance with Article 83.1

Resolution 4(a)
David Frank Barker

Resolution 4(b)
Stuart Robert Davies

Resolution 4(c)
Richard Arthur Gamble

Resolution 4(d)
Christopher Derek Hill

Resolution 4(e)
Judy Ann Kellie

Resolution 4(f)
Ian William James Patrick

Resolution 4(g)
John Mayfield Stoker

Resolution 5

To re-appoint Ernst & Young LLP as the Company's auditors and to authorise the directors to determine the auditors' remuneration.

Special Business (see explanation on page 75)

To consider and, if thought fit, pass the following resolutions of which number 6 will be proposed as a special resolution and numbers 7 and 8 as ordinary resolutions.

Resolution 6 – To be proposed as a special resolution

That the Company be and is hereby granted general and unconditional authority to make market purchases (as defined in section 163 of the Companies Act 1985) of any of its ordinary shares on such terms and in such manner as the directors of the Company may from time to time determine provided that the general authority conferred by this resolution shall:

(i) be limited to 20,161,531 ordinary 20p shares;

(ii) not permit the payment per share of more than 5% above the average of the middle market quotations of an ordinary 20p share of the Company on the London Stock Exchange Daily Official List for the five business days immediately prior to the date of purchase or less than 20p (in each case exclusive of advance corporation tax payable (if any) and expenses); and

(iii) expire at the conclusion of the Annual General Meeting of the Company held in 2004 (except in relation to the purchase of shares the contract for which was concluded before the expiry of the said period and which might be executed wholly or partly after such date).

Resolution 7

To re-appoint David Ean Coleridge pursuant to section 293(5) of the Companies Act 1985 as a director of the Company having attained the age of 70 years.

Resolution 8

To approve the Directors' Remuneration Report for the financial year ended on 31 December 2002.

By order of the Board

Philip J Lampshire, *Secretary*
7 April 2003

Notes:

(i) You may appoint one or more proxies of your own choice if you are unable to attend the meeting but would like to vote on a poll. A proxy need not be a member of the Company. If no name is entered on the form of proxy, the return of the form of proxy duly signed will appoint the Chairman of the meeting to act as your proxy. The completion and return of a form of proxy will not, however, preclude shareholders from attending and voting in person at the meeting or at any adjournment thereof, should they wish to do so.

(ii) In the case of a corporation, the form of proxy must be executed under its common seal or under the hand of a duly authorised officer or attorney.

(iii) The form of proxy (together with any power of attorney or other authority under which it is signed, or a certified copy of that power or authority) must be received by Lloyds TSB Registrars not later than 11.00am on Monday 19 May 2003 (or, if the Meeting is adjourned, not less than 48 hours before the time for holding the adjourned meeting).

(iv) If two or more persons are jointly entitled to a share conferring the right to vote, any one of them may vote at the meeting either in person or by proxy, but if more than one joint holder is present at the meeting either in person or by proxy, the one whose name stands first in the register of members in respect of the joint holding shall alone be entitled to vote in respect thereof. In any event, the names of all joint holders should be stated on the form of proxy.

(v) If the form of proxy is returned without any indication as to how the person(s) appointed shall vote on the resolution, such person(s) will exercise his/her/their discretion as to how to vote or whether to abstain from voting.

(vi) Unless instructed otherwise, the proxy may also vote or abstain from voting as he or she thinks fit on any other business which may properly come from the meeting (including amendments to the resolutions).

(vii) Only those shareholders registered in the Register of Members of the Company as at 11.00 am on 19 May 2003 shall be entitled to attend or vote at the above mentioned meeting in respect of the number of Ordinary Shares registered in their name at that time. Changes to entries on the Register of Members after 11.00 am on 19 May 2003 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Explanation of Resolution 6 proposed under Special Business

The directors consider that it would be appropriate and in the best interests of the Company to seek to renew the authority previously granted to the Company to make market purchases of its Ordinary Shares on the London Stock Exchange. There may be occasions when, for a variety of reasons, the directors consider that it would be desirable to reduce the issued share capital by purchases in the market. The Board proposes to exercise the powers of purchase only when satisfied that any purchase will have a beneficial impact on the earnings per share and that it is in the interests of Shareholders so to do. The authority being sought is for up to 20,161,531 Ordinary Shares (representing 10% of the present issued share capital) at a price which is not more than 5% above the average of the middle market quotations of Ordinary Shares in the Company on the London Stock Exchange on the five business days prior to the date of purchase and, in any event, not lower than the nominal value of each share (in each case exclusive of any advance corporation tax and expenses). Any shares purchased under this authority will be cancelled. At the close of business on 10 April, the latest practicable date before printing this document, the middle market quotation for Ordinary Shares of the Company as derived from the Stock Exchange Daily Official List was 40.75 pence per share. The authority proposed in the resolution will expire at the next Annual General Meeting of the Company. The Board intend to seek renewal of the authority at the next Annual General Meeting. Any purchase of the Company's shares would take place within the limits of available reserves.

Explanation of Resolution 7 proposed under Special Business

This resolution is to seek the re-appointment of Mr D E Coleridge as a director of the Company having attained the age of 70 years. Mr Coleridge is highly valued by the Board because of his knowledge and experience of the insurance industry.

Explanation of Resolution 8 proposed under Special Business

This resolution is to approve the Directors' Remuneration Report for the financial year ended 31 December 2002. You can find the report on pages 26 to 31. This resolution is included to comply with the provisions of the Directors' Remuneration Report Regulations 2002 which require the Report to be presented for a non-binding vote at the Annual General Meeting.

Highway Insurance

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People driven