

COMPANY REGISTRATION NO 2998217

HIGHWAY INSURANCE GROUP PLC

**REPORT AND
ACCOUNTS**

FOR THE YEAR ENDED 31 DECEMBER 2009



HIGHWAY INSURANCE GROUP PLC

**REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

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HIGHWAY INSURANCE GROUP PLC

DIRECTORS, OFFICERS AND REGISTERED OFFICE

Directors

K W Abercromby
P M Bunker
S V Castle
P N Cosh (Resigned 30 March 2009)
S Daniels
C D Hill (Resigned 31 January 2009)
J B O'Roarke
M J Rogers
R A Rowney

Secretary

P B Cassidy

Registered office

County Gates
Bournemouth
BH1 2NF

Tel 01202 292333
Fax 01202 751825

Auditor

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
31 Great George Street
Bristol
BS1 5QD

HIGHWAY INSURANCE GROUP PLC (COMPANY REGISTRATION NUMBER 2998217)

DIRECTORS' REPORT

The Directors submit their annual report and the audited accounts for Highway Insurance Group Plc (the 'Company') for the year to 31 December 2009

1. Results and dividends

The loss on ordinary activities for the year after taxation was £9,688,000 (2008 £50,407,000 loss) The Directors proposed and paid no dividends in the current year (2008 £11,725,000)

2. Principal activities

The Company acts as a holding company for the Highway Group of companies

3. Review and developments

(a) Results and performance

During 2009 the Company has made good progress towards achieving its long term strategic objectives

(b) Strategy

The strategy of the Company is that of a holding company for the Highway group of companies within the Liverpool Victoria General Insurance Group

(c) Results and performance

During 2009 the Company has made good progress towards achieving its long term strategic objectives

(d) Principal risks and uncertainties

Given the nature of the operations the Directors do not consider there are any significant risks and uncertainties facing the Company

(e) Significant post Balance Sheet events.

There have been no events of significance affecting the Company since the balance sheet date

(f) Key performance indicators

As the Company does not trade and does not have any performance indicators the Board do not consider it appropriate to report key performance indicators

4. Directors and their interests

The present members of the Board and the members who served during the year are listed on page 2

5. Basis of preparation

The accounts for the Company are presented using International Financial Reporting Standards as adopted in the European Union, drawn up on a going concern basis This is the first time that the accounts have been so presented and more detail on the change from UK Generally Accepted Accounting Principles previously adopted is given in note 27 The Directors are satisfied that the Company has adequate resources to continue business for the foreseeable future and accordingly the going concern basis is appropriate

6. Parent company

The Company is a wholly owned subsidiary of Liverpool Victoria Insurance Company Limited The ultimate parent company is Liverpool Victoria Friendly Society Limited, an incorporated Friendly Society registered under the Friendly Societies Act 1992

DIRECTORS' REPORT

7. Employees

The Company did not directly employ any staff, instead it utilised the staff and premises of Liverpool Victoria Friendly Society Limited in carrying out its activities in 2009

8. Charitable and political donations

No charitable or political donations have been made during 2009 (2008 £nil)

9 Statement of disclosure of information to the auditor

Each Director at the date of this report confirms that

- so far as he is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

10. Auditor

During the year KPMG resigned as auditor and PricewaterhouseCoopers LLP was appointed in succession

11. Statement of directors' responsibilities


The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards (IFRS) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

APPROVED BY THE BOARD OF DIRECTORS AND SIGNED BY ORDER OF THE BOARD


P B Cassidy
Secretary
25 March 2010

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HIGHWAY INSURANCE GROUP PLC

We have audited the financial statements of Highway Insurance Group Plc for the year ended 31 December 2009 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cashflows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Directors Responsibilities Statement on page 4, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its loss and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
HIGHWAY INSURANCE GROUP PLC**

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

David Roper (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
31 Great George Street
Bristol
BS1 5QD

25 MARCH 2010

HIGHWAY INSURANCE GROUP PLC

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 £000	2008 £000
Investment income	4	4,020	6,437
Other operating income	6	102	98
Total income		4,122	6,535
Write down of carrying value of investments in subsidiaries		(16,439)	(8,157)
Finance costs	5	(672)	(4,163)
Other operating and administrative expenses	7	4,140	(46,028)
Loss before tax		(8,849)	(51,813)
Income tax (expense)/credit	10	(839)	1,406
Loss for the year		(9,688)	(50,407)
Share based payments		-	1,028
Appropriation to the Highway Share Incentive Plan		-	58
Exercised share options		-	(1,970)
Dividend paid		-	(11,725)
Total comprehensive income for the year		(9,688)	(63,016)

All balances relate to continuing business

The notes on pages 11 to 24 are an integral part of the accounts

HIGHWAY INSURANCE GROUP PLC

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009

	Attributable to equity holders of the Company				
	Called up share capital	Share premium	Capital reserve	Retained deficit and other reserves	Total
	£000	£000	£000	£000	£000
Balance at 1 January 2009	41,756	20,471	20,000	(23,358)	58,869
Capital contribution	-	-	84,000	-	84,000
Loss for the year	-	-	-	(9,688)	(9,688)
Balance at 31 December 2009	41,756	20,471	104,000	(33,046)	133,181

	Attributable to equity holders of the Company				
	Called up share capital	Share premium	Capital reserve	Retained deficit and other reserves	Total
	£000	£000	£000	£000	£000
Balance at 1 January 2008	40,866	18,098	-	39,658	98,622
Capital contribution	-	-	20,000	-	20,000
Issue of shares	890	2,373	-	-	3,263
Loss for the year	-	-	-	(50,407)	(50,407)
Share based payments	-	-	-	1,028	1,028
Appropriation to the Highway Share Incentive Plan	-	-	-	58	58
Exercised share options	-	-	-	(1,970)	(1,970)
Dividend paid	-	-	-	(11,725)	(11,725)
Balance at 31 December 2008	41,756	20,471	20,000	(23,358)	58,869

The notes on pages 11 to 24 are an integral part of the accounts

HIGHWAY INSURANCE GROUP PLC

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2009

	Note	2009 £000	2008 £000
Assets			
Intangible assets	11	-	158
Investments in subsidiaries	12	274,148	199,986
Trade and other receivables	13	4,666	4,029
Deferred tax asset	14	15	18
Current tax asset	15	428	1,586
Cash and cash equivalents	16	32	29
Total assets		279,289	205,806
Liabilities			
Trade and other payables	17	146,108	146,937
Total liabilities		146,108	146,937
Equity			
Called up share capital	18	41,756	41,756
Share premium	19	20,471	20,471
Capital reserve	20	104,000	20,000
Retained deficit and other reserves	21	(33,046)	(23,358)
Total equity		133,181	58,869
Total liabilities and equity		279,289	205,806

The notes on pages 11 to 24 are an integral part of the accounts

These accounts were approved by the Board of Directors on 25 March 2010

Signed on behalf of the Board of Directors



K W Abercromby

HIGHWAY INSURANCE GROUP PLC

STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 £000	2008 £000
Cash and cash equivalents at 1 January	16	29	53
Cash flows arising from:			
Operating activities			
Cash flows from/(used in) operating activities	22	6,684	(28,787)
Interest received	4	270	262
Interest paid	5	(672)	(4,163)
Group relief	15	(814)	1,114
Tax refund received/(paid)	15	1,136	(6,988)
Net cash flows from/(used in) operating activities		6,604	(38,562)
Investing activities			
Proceeds from sale of investment in subsidiary	12	14,399	-
Capital contribution to subsidiaries	12	(105,000)	(20,000)
Net cash flows used in investing activities		(90,601)	(20,000)
Financing activities			
Dividends paid	21	-	(11,725)
Borrowings from group undertakings	17	-	47,000
Issue of share capital	18	-	3,263
Capital contributions from group undertakings	20	84,000	20,000
Net cash flows from investing activities		84,000	58,538
Net decrease in cash and cash equivalents		3	(24)
Cash and cash equivalents at 31 December	16	32	29

The notes on pages 11 to 24 are an integral part of the accounts.

HIGHWAY INSURANCE GROUP PLC

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2009

1. General information

Highway Insurance Group Plc is a holding company for the Highway Group of companies. The Company is limited by shares, domiciled and incorporated in United Kingdom.

2. Accounting policies

BASIS OF PRESENTATION

These accounts of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), as endorsed by the European Union ('EU') and the International Financial Reporting Interpretations Committee ('IFRIC') and also with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

IFRS 1, First-time Adoption of International Financial Reporting Standards, with the provisions of statutory instrument 2008/410, Schedule 3 and Schedule 6 part 3 to the Companies Act 2006 has been applied in preparing these accounts. These accounts are the first accounts to be prepared in accordance with IFRS.

Reconciliations and descriptions of the effects of the transition from UK Generally Accepted Accounting Principles (GAAP) to IFRS on the Company's statement of comprehensive income and statement of financial position are given in note number 27.

These accounts have been prepared under the historic cost convention, as modified by the revaluation of financial assets and liabilities at fair value through income.

The Company has not used any significant estimates or judgements in preparing the financial statements in conformity with IFRS. The principal accounting policies adopted are disclosed below. These policies have been consistently applied to all years presented unless otherwise stated.

Consolidation

The accounts present information about the Company as an individual undertaking and not about its group. The Company has not prepared group accounts as it is exempt from the requirement to do so by section 400 of the Companies Act 2006, as it is a subsidiary undertaking of Liverpool Victoria Friendly Society Limited (LVFS), a company incorporated in England and is included in the consolidated accounts of the Liverpool Victoria Group.

Investment income

Investment income includes dividends and interest on deposits. Dividends are included on an ex-dividend basis. Interest on deposits is included on an accruals basis. Interest income for financial assets that are not classified as "fair value through profit and loss" is recognised using the effective interest method. The effective interest rate is calculated at outset by discounting the asset's estimated cash flows back to its net carrying amount.

HIGHWAY INSURANCE GROUP PLC

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2009

Income taxes

The income tax expense reflects the movement in current and deferred income tax in respect of income, gains, losses and expenses

- Current income tax

Current income tax liabilities and assets are measured at the amount expected to be paid to or recovered from the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date

- Deferred tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the Company controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Intangible assets

Where an acquisition takes place that gives access to existing customers, distribution channels or the right to charge for investment or policy administration services, the present value of these is recognised as an intangible asset.

The carrying value of the asset is amortised over its expected economic life, and is assessed as and when impairment may be indicated.

The expected economic life of other intangibles carried by the Group are determined by with reference to acquired business and lie within the range of 10 to 20 years.

Investments in group undertakings

The subsidiaries are held in the Company's statement of financial position at cost less any provision for permanent diminution in value. An assessment of the realisable value is made at the year end and, if the directors assess that there has been a permanent fall in that value below the carrying value, a provision is made to bring the carrying value down to the assessed realisable value.

Trade and other receivables

Trade and other receivables are recognised when due and comprise amounts due to the Company from group undertakings and other receivables. Where there is objective evidence that the carrying value is impaired then the impairment loss will be recognised in the statement of comprehensive income.

Trade and other payables

Trade and other payables are recognised when due and include amounts due to group undertakings and accruals.

HIGHWAY INSURANCE GROUP PLC

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2009

Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets

Share based payments

Until 31 December 2008 the company operated a number of executive and employee share based payment plans

The fair value of the employee services received in exchange for the grant of share options and conditional shares were recognised as an expense in the statement of comprehensive income

The fair value was measured at grant date and expensed over the vesting period. The fair value of the award was measured using a Monte Carlo simulation model, taking into account the terms and conditions upon which the awards were granted

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, and short term deposits with an original maturity of three months or less

For the purpose of the cash flow statement, cash and cash equivalents are as defined above but are shown net of outstanding bank overdrafts

CHANGES IN ACCOUNTING POLICIES

(i) Standards, amendments to published standards and interpretations effective on or after 1 January 2009

The following amendments to published standards are mandatory for the Company's accounting periods beginning on or after 1 January 2009

IAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009) The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been presented so that it also conforms to the revised standard

(ii) Standards, amendments to published standards and interpretations early adopted by the Company

In 2009, the Company did not early adopt any new, revised or amended standards

HIGHWAY INSURANCE GROUP PLC

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2009

(iii) Standards and interpretations effective in 2009 but not relevant to the Company's operations

IAS 16 'Property, plant and equipment' (and consequential amendment to IAS 7)
IAS 20 'Accounting for government grants and disclosure of government assistance' (Amendment)
IAS 29 'Financial reporting in hyperinflationary economies'
IAS 31 'Interests in joint ventures' (and consequential amendment to IAS 32 and IFRS 7)
IAS 32 and IAS 1 'Puttable financial instruments and obligations arising on liquidation'
IAS 38 'Intangible assets'
IAS 41 'Agriculture'
IFRIC 13 'Customer loyalty programmes'
IFRIC 15 'Agreements for the construction of real estates'

(iv) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

The following standards and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2010 or later periods, but the Company has not early adopted them

IAS 1 (Amendment), 'Presentation of financial statements' The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Company will apply IAS 1 (amendment) from 1 January 2010. It is not expected to have a material impact on the Company's financial statements.

IAS 24 (Amendment), 'Related party disclosures' The amendment relaxes the disclosures of transactions between government-related entities and clarifies related-party definition. The amendment is not expected to have an impact on the Company's financial statements.

HIGHWAY INSURANCE GROUP PLC

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2009

3. Capital management

The Company maintains an efficient capital structure from a combination of equity shareholders' funds and borrowings, consistent with the Company's risk profile

The Company retains capital to meet three key objectives

- (i) To ensure financial stability,
- (ii) To enable the Company's strategy to be developed, and
- (iii) To give confidence to consumers and other stakeholders who have relationships with the Company

At least annually, these objectives are reviewed and benchmarks are set by which to judge the adequacy of the Company's capital. The capital position is monitored against those benchmarks to ensure that sufficient capital is available to the Company. In the event that sufficient capital is not available, plans would be developed either to raise additional capital through, for example, subordinated loans, or to reduce the quantum of risk accepted thereby reducing the capital requirement through, for example, reinsurance or a change in investment strategy. If it becomes apparent that excess capital is available to the Company above its potential needs, plans would be developed to return such excess to shareholders.

As the Company is not regulated, there are no external capital requirements.

The Company had capital available of £133,181,000 (2008: £58,869,000), being net assets available to the Company.

4. Investment income

	2009 £000	2008 £000
Dividends received from group undertakings	3,750	6,175
Interest received from group undertakings	250	213
Other interest income	20	49
	4,020	6,437

5. Finance costs

	2009 £000	2008 £000
Interest paid to group undertakings	561	3,467
Other interest costs	111	696
	672	4,163

6. Other operating income

	2009 £000	2008 £000
Unwinding of discount on interest free loan	98	98
Other income	4	-
	102	98

Interest free loan to Lyons Davidson was issued on 1 July 2004 for the term of 6 years, after which the loan is repayable on demand. The cash flows have been therefore discounted over 6 years using an interest rate of 5%.

HIGHWAY INSURANCE GROUP PLC

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2009

7 Other operating and administrative expenses

Operating and administrative expenses include

	2009 £000	2008 £000
Write off/amortisation of intangible assets	158	105
Staff cost re-charges	557	601
Provision against intercompany loss	-	39,763
Release of provision against intercompany loss	(5,917)	-

8. Auditor's remuneration

	2009 £000	2008 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	100	90
	100	90

In 2009 Highway Insurance Group has borne the audit costs for all its subsidiaries (2008 non-trading subsidiaries only)

9. Directors' emoluments

The aggregate amount of Directors' emoluments was as follows

	2009 £000	2008 £000
a) Aggregate emoluments	4,190	607

b) There were no contributions to the money purchase pension scheme in 2009 (2008 £nil)

c) Emoluments of the Directors were as follows

	Salaries £000	Bonuses £000	Other benefits £000	Compensation for loss of office £000	Total 2009 £000	Total 2008 £000
Highest paid Director	474	405	118	-	997	110
All Directors	2,155	1,522	200	313	4,190	607

In 2008 only the emoluments of the chairman and non-executive directors were recognised in the statement of comprehensive income of the Company. Emoluments in respect of the executive directors are recognised in the accounts of other group companies where the services are provided.

All Directors are remunerated by Liverpool Victoria Friendly Society (LVFS) in respect of their executive roles within the Group.

Other benefits include contributions to funded unapproved retirement benefit schemes, car allowances, medical, relocation and other benefits in kind or their equivalent monetary value.

LVFS has made no contributions to personal pension arrangements during 2009 or 2008.

HIGHWAY INSURANCE GROUP PLC

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2009

d) Pension arrangements

S Daniels, P Bunker, S Castle, J O'Roarke, R Rowney and K Abercromby are members of the LV= Employee Pension Scheme, which is a defined benefit scheme

LVFS makes contributions to the LV= Employee Pension Scheme of 20.6% of pensionable salaries (2008 20.6% of pensionable salaries less £6.1m) in respect of all permanent staff, including executive directors

	2009 £000	2008 £000
Accrued pension at end of period		
Highest paid Director	-	-
All Directors	164	134

10. Income tax (expense)/credit

a) Current year tax (expense)/credit

	2009 £000	2008 £000
Current tax credit:		
Group relief	(814)	1,411
Prior year adjustments	(22)	-
Total current tax	(836)	1,411
Deferred tax charge:		
Temporary differences	(3)	(5)
Total deferred tax	(3)	(5)
Total income tax (expense)/credit	(839)	1,406

b) Reconciliation of tax (expense)/credit

	2009 £000	2008 £000
Loss before tax	(8,849)	(51,813)
Loss multiplied by standard rate of corporation tax in the UK of 28% (2008 28.5%)	2,478	14,767
Effects of:		
Expenses not deductible for tax purposes	(4,986)	(14,675)
Non-taxable income relating to intergroup balances	1,691	-
Adjustments in respect of investment income	-	1,314
Adjustments to tax charge in respect of prior years	(22)	-
Total income tax (expense)/credit for the year	(839)	1,406

HIGHWAY INSURANCE GROUP PLC

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2009

11. Intangible assets

	Purchased rights £000	Total £000
Cost		
At 1 January 2009	631	631
Write down	(631)	(631)
At 31 December 2009	-	-
Accumulated amortisation		
At 1 January 2009	473	473
Write down	(473)	(473)
At 31 December 2009	-	-
Net book value at 31 December 2009	-	-

Amortisation is presented in other operating and administrative expenses in the income statement

12. Investments in subsidiaries

	2009 £000	2008 £000
Shares in subsidiaries		
Balance at 1 January	199,986	188,143
Additions*	105,000	20,000
Disposals	(14,399)	-
Write downs	(16,439)	(8,157)
Balance at 31 December	274,148	199,986

* Additions of £105,000,000 are made of £90,000,000 capital contribution to Highway Insurance Company Limited (2008; £20,000,000) and £15,000,000 capital contribution to Highway Insurance Guernsey Limited

Hero Insurance Services Limited was sold to Capita on the 3 March 2009

Cost of investment	14,399
Proceeds	(14,399)
Loss on disposal	-

£14,399,000 cost of investment includes £22,041,000 of original cost less a provision of £7,642,000 accounted for in 2008

HIGHWAY INSURANCE GROUP PLC

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2009

12. Investments in subsidiaries (continued)

The following were the subsidiary companies throughout the year

Name	Incorporated and domiciled	Principal activity	Percentage held
SLA Holdings Limited	England and Wales	Holding company	100%
Highway Group Services Limited	England and Wales	Holding company, provides management services to fellow subsidiaries	100%
Highway Insurance Guernsey Limited	Guernsey	Insurance underwriting	100%
Ockham Holdings PLC	England and Wales	Non-trading	100%
360 Degrees Claims Limited	England and Wales	Accounts for accident claims management fees	100%
Ockham com Limited	England and Wales	Non-trading	100%
Highway Corporate Capital Limited	England and Wales	Corporate name at Lloyd's	100%
Highway Insurance Company Limited	England and Wales	Insurance underwriting	100%
New London Capital PLC	England and Wales	Investment company	100%
Ockham Corporate Limited**	England and Wales	Corporate name at Lloyd's	100%
Highway Insurance Agency Limited**	England and Wales	Non-trading	100%
RWS Agency Limited**	England and Wales	Non-trading	100%
Stafford Run Off Agency**	England and Wales	Non-trading	100%
New London Capital Holdings Limited**	England and Wales	Holding company	100%
NLC Name No 1 Limited**	England and Wales	Corporate name at Lloyd's	100%
NLC Name No 2 Limited**	England and Wales	Corporate name at Lloyd's	100%
NLC Name No 3 Limited**	England and Wales	Corporate name at Lloyd's	100%
NLC Name No 4 Limited**	England and Wales	Corporate name at Lloyd's	100%
NLC Name No 5 Limited**	England and Wales	Corporate name at Lloyd's	100%
NLC Name No 7 Limited**	England and Wales	Corporate name at Lloyd's	100%

** Indirect holding

HIGHWAY INSURANCE GROUP PLC

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2009

13. Trade and other receivables

	2009 £000	2008 £000
Amounts due from group undertakings	-	2,114
Interest-free loan to Lyons Davidson	1,904	1,838
Other receivables	2,762	77
	4,666	4,029

All trade and other receivables are available within one year

14. Deferred tax asset

Deferred tax is provided at 28% analysed over the following timing differences

	2009 £000	2008 £000
Balance at 1 January	18	23
Amounts recorded in the statement of comprehensive income	(3)	(5)
Balance at 31 December	15	18

(i) Analysis of deferred taxation temporary differences

	2009 £000	2008 £000
Advanced capital allowances	15	18
	15	18

Deferred tax asset expected to arise after more than one year is £11,650 (2008 £14,563)

15. Current tax asset

	2009 £000	2008 £000
Balance at 1 January	1,586	2,897
Amounts recorded in the statement of comprehensive income	(836)	1,411
Group relief	814	(8,596)
Tax refund received/(tax paid)	(1,136)	5,874
Balance at 31 December	428	1,586

16. Cash and cash equivalents

Cash and cash equivalents are fully represented by cash at bank and in hand

HIGHWAY INSURANCE GROUP PLC

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2009

17. Trade and other payables

	2009 £000	2008 £000
Amounts due to group undertakings	145,693	136,410
Accruals and deferred incomes	154	-
Other taxes	256	-
Other payables	5	10,527
	146,108	146,937

All trade and other payables are payable within one year

18. Called up share capital

	2009 £000	2008 £000
Authorised		
274,999,998 (2008 274,999,998) ordinary shares of £0.20 each	50,000	50,000
Called up, allotted and fully paid		
204,331,668 (2008 204,331,668) ordinary shares of £0.20 each	41,756	41,756

4,449,006 ordinary 20p shares with a nominal value of £889,801 were issued on 27 October 2008

19. Share premium

	2009 £000	2008 £000
Balance at 1 January	20,471	18,098
Issue of shares	-	2,373
Balance at 31 December	20,471	20,471

20. Capital reserve

	2009 £000	2008 £000
Balance at 1 January	20,000	-
Contributions	84,000	20,000
Balance at 31 December	104,000	20,000

The Company received the following capital contributions from Liverpool Victoria Insurance Company Limited during 2008 and 2009

22 December 2008	£20,000,000
24 February 2009	£10,000,000
25 September 2009	£4,000,000
19 October 2009	£25,000,000
26 November 2009	£10,000,000
18 December 2009	£35,000,000

HIGHWAY INSURANCE GROUP PLC

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2009

21. Retained deficit and other reserves

	2009 £000	2008 £000
Balance at 1 January	(23,358)	39,658
Retained loss for the year	(9,688)	(50,407)
Share based payments	-	1,028
Exercised share options	-	(1,970)
Appropriation to the Highway Share Incentive Plan	-	58
Dividend paid	-	(11,725)
Balance at 31 December	(33,046)	(23,358)

22. Cash generated from operating activities

	2009 £000	2008 £000
Profit/(loss) before tax	(8,849)	(51,813)
Unwinding of discount on interest free loan	(98)	(98)
Write down of carrying value of investments in subsidiaries	16,439	8,157
Interest received	(270)	(262)
Interest paid	672	4,163
Non cash items		
Write down/amortisation of intangible assets	158	105
Share based payments charges recorded in income statement	-	(884)
Changes in working capital		
Increase in trade and other receivables	(2,653)	(18)
Decrease in trade and other payables	(10,112)	(389)
Increase in balances due to group undertakings	11,397	12,252
Cash generated from/(used in) operating activities	6,684	(28,787)

23. Share based payments

Following the acquisition of the Highway Group by Liverpool Victoria Insurance Company Limited all shares awarded under the Share Incentive Plan ("the SIP"), the Executive Performance Share Plan (the PSP) and Executive Share Option Plan ("the Executive Plan") vested

24. Commitments

In 2009 the Company has provided a letter of support to Ockham Corporate Limited confirming that it will provide adequate finance for the next 12 months, to enable Ockham Corporate Limited to meet its normal trading liabilities, as they fall due

HIGHWAY INSURANCE GROUP PLC

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2009

25 Related party transactions

The Company did not enter into any transactions with its key management personnel
All transactions are carried out on an arm's length basis Details of significant transactions carried out during the year with related parties are as follows

The following transactions have taken place between the Company and LV= Group

	2009 £000	2008 £000
Interest received from group undertakings	250	213
Interest paid to group undertakings	(561)	(3,467)
Dividends received from group undertakings	3,750	6,715
Dividends paid to group	-	(11,725)
	3,439	(8,264)

Balances outstanding between the Company and LV= Group

	2009 £000	2008 £000
Receivable by the Company from ultimate parent	-	2,114
Payable by the Company to group undertakings	(72,373)	(72,373)
Payable by the Company to ultimate parent	(73,320)	(64,037)
	(145,693)	(134,296)

Key management personnel of the Group include all directors, executive and non-executive, and senior management (the Board and the Executive Committee)

The summary of the compensation of key management personnel for the year is as follows

	2009 £000	2008 £000
Salaries and bonuses	3,677	352
Other benefits	200	-
Compensation for loss of office	313	255
	4,190	607

HIGHWAY INSURANCE GROUP PLC

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2009

26. Ultimate parent company

The ultimate parent company is Liverpool Victoria Friendly Society Limited, an UK incorporated Friendly Society registered under the Friendly Societies Act 1992

The immediate parent company is Liverpool Victoria Insurance Company Limited, a limited liability company, incorporated in the UK

Both the ultimate and immediate parent companies are registered at the below address

The largest and smallest company whose accounts this company is consolidated into is Liverpool Victoria Friendly Society Limited. The consolidated accounts of Liverpool Victoria Friendly Society Limited are available to the public and may be obtained from

The Company Secretary
County Gates
Bournemouth
BH1 2NF

or at www.lv.com/aboutus/report

27. First time adoption of international accounting standards

There are no differences in the Company's Statement of Financial Position or movement in the Statement of Comprehensive Income as at 1 January 2008 and as at 31 December 2008 under IFRS from that previously prepared under UK GAAP

