

ICHEM Insurance Company Limited

Directors' report and financial statements

31 December 2000

Registered number 2882073



Directors' report and financial statements

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Directors' report

The directors present their report together with the audited financial statements for the year ended 31 December 2000.

Principal activities

The principal activity of the company is the transaction of general insurance and reinsurance business associated with Imperial Chemical Industries PLC (ICI). The principal activities of the company's subsidiary undertakings are as set out in note 11.

The ultimate parent undertaking is ICI.

Business review

Details of the results for the year are set out on pages 5 and 6. It is expected that the Company's current activities will continue unchanged.

Proposed dividend and transfer from reserves

No dividends were declared for the year ended 31 December 2000 (1999: nil). The directors recommend that the retained loss for the year of £1,346,000 (1999: profit £149,000) be transferred to reserves.

Directors and directors' interests

The directors of the company in office at the end of the year were as follows:

DJ Gee
D Taylor
IN Canham

None of the directors held shares in ICHM Insurance Company Limited at any time during the year.

The interest of the directors in office at the end of the year in the shares and debentures of ICI and its subsidiaries are set out in note 21.

Payment of suppliers

It is the company's policy to agree appropriate terms and conditions with suppliers and, subject to their acceptance, to comply with the agreement.

By order of the board


IN Canham
Director

1 Adam Street
London
WC2N 6AW

20 June 2001

Statement of directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Report of the auditors to the members of ICHM Insurance Company Limited

We have audited the financial statements on pages 4 to 19.

Respective responsibilities of directors and auditors

The Directors are responsible for preparing the directors' report and as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Equalisation reserves

Our evaluation of the presentation of information in the financial statements has regard to the statutory requirement for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amounts set aside at 31 December 2000 and the effect of the movement in those reserves during the year on the general business technical result and profit before tax are disclosed in note 13.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2000 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

20 June 2001
London

Profit and loss account: technical account - general business
for the year ended 31 December 2000

	Note	2000 £000	1999 £000
Written premiums, net of reinsurance:			
Gross premiums written	2	34,409	35,575
Outward reinsurance premiums		(11,354)	(14,661)
Net premiums written		23,055	20,914
Change in the gross provision for unearned premiums	13	1,246	9,261
Change in the provision for unearned premiums, reinsurers' share	13	(1,672)	(4,262)
Change in the net provision for unearned premiums		(426)	4,999
Earned premiums, net of reinsurance		22,629	25,913
Claims incurred, net of reinsurance:			
Claims paid:			
Gross amount		(33,224)	(39,784)
Reinsurers' share		7,265	5,186
		(25,959)	(34,598)
Change in provision for claims:			
Gross amount	13	15,437	16,924
Reinsurers' share	13	(9,766)	(8,223)
		5,671	8,701
Claims incurred, net of reinsurance		(20,288)	(25,897)
Net operating expenses	6	(5,474)	(5,085)
Balance on the technical account - general business		(3,133)	(5,069)

The notes on pages 9 to 19 form part of the financial statements.

Profit and loss account: non-technical account
for the year ended 31 December 2000

	Note	2000 £000	1999 £000
Balance on the technical account - general business		(3,133)	(5,069)
Investment income:			
Income from subsidiary undertaking		-	1,450
Income from other investments	4	7,431	6,644
Unrealised gains/(losses) on investments		343	(2,477)
Investment expenses and charges	5	(641)	(135)
Operating profit on ordinary activities before tax	8	4,000	413
Tax on profit on ordinary activities	10	(5,346)	(264)
Retained (loss)/profit for the financial year		(1,346)	149

The notes on pages 9 to 19 form part of the financial statements.

Statement of total recognised gains and losses
for the year ended 31 December 2000

	Note	2000 £000	1999 £000
Operating (loss)/profit on ordinary activities after tax		(1,346)	149
Increase in current value of investments in subsidiary undertakings	20	6,266	7,353
Total gains recognised since last annual report		4,920	7,502

Reconciliation of movements in shareholder's funds
for the year ended 31 December 2000

	Note	2000 £000	1999 £000
Retained (loss)/profit for the financial year		(1,346)	149
Increase in current value of investments in subsidiary undertakings	20	6,266	7,353
Net increase in shareholder's funds		4,920	7,502
Shareholder's funds at beginning of year		74,665	67,163
Shareholder's funds at end of year		79,585	74,665

The notes on pages 9 to 19 form part of the financial statements.

Balance sheet
at 31 December 2000

	Note	2000 £000	1999 £000
Assets			
<i>Investments</i>			
Investments in subsidiary and associated undertakings	11	32,827	26,561
Other financial investments	12	105,270	96,395
		<hr/>	<hr/>
		138,097	122,956
<i>Reinsurers' share of technical provisions</i>			
Provision for unearned premiums	13	6,190	7,863
Claims outstanding	13	60,181	69,797
		<hr/>	<hr/>
		66,371	77,660
<i>Debtors</i>			
Debtors arising out of direct insurance operations	14	663	389
Debtors arising out of reinsurance operations	15	4,108	9,011
Amounts due from subsidiary undertakings		-	1,450
Other debtors		918	1,472
		<hr/>	<hr/>
		5,689	12,322
<i>Other assets</i>			
Cash at bank and in hand		2,846	2,484
<i>Prepayments and accrued income</i>			
Accrued interest		1,135	916
Deferred acquisition costs		1,517	1,665
		<hr/>	<hr/>
		2,652	2,581
		<hr/>	<hr/>
Total Assets		215,655	218,003
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 9 to 19 form part of the financial statements.

Balance sheet (continued)
at 31 December 2000

	Note	2000 £000	1999 £000
Liabilities			
<i>Capital and reserves</i>			
Called up share capital	19	34,049	34,049
Profit and loss account	20	16,758	18,104
Revaluation reserve	20	28,778	22,512
		<hr/>	<hr/>
Shareholder's funds attributable to equity interests		79,585	74,665
<i>Technical provisions</i>			
Provision for unearned premiums	13	18,246	18,764
Claims outstanding	13	103,795	116,326
		<hr/>	<hr/>
		122,041	135,090
<i>Creditors falling due within 12 months</i>			
Creditors arising out of direct insurance operations	16	1,103	2,890
Creditors arising out of reinsurance operations	17	6,073	3,664
Other creditors including taxation and social security	18	6,745	1,047
		<hr/>	<hr/>
		13,921	7,601
Accruals and deferred income		108	212
Provision for deferred taxation		-	435
		<hr/>	<hr/>
Total Liabilities		215,655	218,003
		<hr/>	<hr/>

These financial statements were approved by the board of directors on 20 June 2001 and were signed on its behalf by:


D Taylor
 Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The accounts have been prepared in accordance with the provisions of Section 255 of, and schedule 9A to, the Companies Act 1985, and comply with the revised Statement of Recommended Practice issued by the Association of British Insurers.

The accounts have also been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost accounting rules, modified to include the revaluation of investments.

The financial statements present information about the company as an individual undertaking and not about its group. The company is exempt from the preparation of group accounts under S228(1)(b) of the Companies Act 1985.

The company has not prepared a cash flow statement as it is a wholly-owned subsidiary undertaking and is included in the consolidated accounts of its parent undertaking.

Further information regarding the parent undertaking in whose consolidated accounts the company is included is shown in note 23.

Investments and investment income

Realised and unrealised gains and losses on fixed income securities are included in the profit and loss account. Realised gains and losses represent the difference between net sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation of investments at the balance sheet date and their purchase price, or if they had been previously valued, their valuation at the last balance sheet date.

Investments in subsidiary undertakings and participating interests are stated at current value. The changes in current value are taken to the revaluation reserve.

Other financial investments, consisting of deposits with credit institutions and fixed income securities, are stated at current value.

Investment income (excluding dividends received and receivable from subsidiary undertakings and participating interests) and investment expenses and charges are reported in the non-technical account.

Basis of accounting for underwriting activities

The annual basis of accounting is applied to all classes of insurance business.

Notes (continued)

1 Accounting policies (continued)

Premiums

All premiums included in the profit and loss account relate to continuing operations. Written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the financial year and include estimates for pipeline premiums and adjustments arising during the financial year to premiums in respect of business written in previous financial years. All premiums are shown gross of commission payable to intermediaries.

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards reinsurance business being reinsured.

Provision for unearned premiums

Unearned premiums are computed using the daily pro rata method, taking into account the risk profile of the contracts.

Deferred acquisition costs

Acquisition expenses, both direct and indirect, are deferred and charged to the accounting periods in which related premiums are earned.

Claims incurred

Claims incurred includes all payments made in respect of the financial period, claims handling expenses and the movement in provisions for claims outstanding.

Claims outstanding

Claims outstanding comprise provisions for the estimated cost of settling all claims including the related claims handling expenses incurred up to but not paid at the balance sheet date whether reported or not. Where applicable, deductions are made for salvage and other recoveries.

Equalisation reserve

Under the Insurance Companies (Reserves) Act 1995, the company is required to establish equalisation reserves for certain classes of business underwritten, subject to de minimis exemptions.

Foreign currencies

Assets, liabilities and income and expenditure items arising in foreign currencies have been translated into sterling at rates of exchange ruling at the balance sheet date. Net realised exchange gains and losses are dealt with through the profit and loss account.

Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that a liability will crystallise.

Notes (continued)

2 Analysis of gross premiums written, gross premiums earned, gross claims incurred, operating expenses and the reinsurance balance

	2000 Gross Premiums Written £000	2000 Gross premiums earned £000	2000 Gross claims incurred £000	2000 Gross Operating Expenses £000	2000 Reinsurance balance £000
Written as follows:					
Direct	17,313	17,379	(8,054)	(2,811)	(5,930)
Reinsurance	17,096	18,276	(9,732)	(2,653)	(9,607)
	<u>34,409</u>	<u>35,655</u>	<u>(17,786)</u>	<u>(5,464)</u>	<u>(15,537)</u>
By class of business (direct only)					
Property	3,955	4,796	(1,864)	(679)	(1,370)
Motor	763	347	(526)	(96)	(76)
Liability	6,961	6,742	(1,716)	(1,121)	(3,833)
Marine, aviation and transport	1,223	1,279	108	(215)	(428)
Miscellaneous	4,411	4,215	(4,056)	(700)	(223)
	<u>17,313</u>	<u>17,379</u>	<u>(8,054)</u>	<u>(2,811)</u>	<u>(5,930)</u>
	1999 Gross Premiums Written £000	1999 Gross premiums earned £000	1999 Gross Claims Incurred £000	1999 Gross Operating Expenses £000	1999 Reinsurance balance £000
Written as follows:					
Direct	17,776	26,588	(3,681)	(2,445)	(9,186)
Reinsurance	17,799	18,248	(19,179)	(2,639)	(12,775)
	<u>35,575</u>	<u>44,836</u>	<u>(22,860)</u>	<u>(5,084)</u>	<u>(21,961)</u>
By class of business (direct only)					
Property	5,631	6,498	(534)	(755)	(3,786)
Liability	6,654	10,151	(6,352)	(950)	(169)
Marine	1,331	1,846	1,741	(208)	(1,625)
Miscellaneous	4,160	8,093	1,464	(533)	(3,606)
	<u>17,776</u>	<u>26,588</u>	<u>(3,681)</u>	<u>(2,445)</u>	<u>(9,186)</u>

All of the company's activities take place in the United Kingdom.

Business interruption particulars are included in the miscellaneous class.

The total amount of commission for direct insurance business was £1,460,000 (1999: £1,100,000).

Notes (continued)

3 Prior years' claims provisions

Over/(under) provisions for claims outstanding at the beginning of the year and payments and provisions at the end of the year in respect of prior years were as follows:

	2000 £000	1999 £000
Property	532	(747)
Liability	1,966	(5,419)
Marine	391	544
Miscellaneous	(809)	2,099
	<u>2,080</u>	<u>(3,523)</u>

Although provision for claims outstanding are based upon the information currently available to the directors, subsequent information and events may show that the ultimate liability is less than, or in excess of, the amount provided. The methods used, and estimates made, are continually reviewed and any resulting adjustments are reported in the technical account for general business in the financial year in which they are made.

4 Investment income

	2000 £000	1999 £000
Interest income	7,431	6,615
Gain on the realisation of investments	-	29
	<u>7,431</u>	<u>6,644</u>

5 Investment expenses and charges

	2000 £000	1999 £000
Investment management expenses including interest	(125)	(135)
Loss on the realisation of investments	(516)	-
	<u>(641)</u>	<u>(135)</u>

Notes (continued)

6 Net operating expenses

	2000 £000	1999 £000
Acquisition costs	(2,790)	(2,225)
Change in deferred acquisition costs	(180)	(223)
Administrative expenses	(2,634)	(2,843)
Reinsurance commissions and profit participation	-	(1)
Foreign exchange gain	130	207
	<u>(5,474)</u>	<u>(5,085)</u>

7 Remuneration of directors

	2000 £000	1999 £000
Directors' emoluments	158	150

	Number of directors	
	2000	1999
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	-	-
Defined benefit schemes	2	2

The number of directors who exercised share options was

-	-
---	---

The number of directors in respect of whose services shares were received or receivable under long term incentive schemes was

-	-
---	---

Certain directors are also employees of the company's parent undertaking, ICI and are not remunerated for their services by the company. Accordingly, the foregoing disclosures do not include details of their remuneration and other benefits.

Notes (continued)

8 Profit on ordinary activities before tax

	2000 £000	1999 £000
Profit on ordinary activities before tax is stated		
<i>after crediting</i>		
income from listed investments	3,756	3,292
<i>after charging</i>		
Auditors' remuneration:		
Audit	35	34
Other services – audit of regulatory return	10	9
	<u> </u>	<u> </u>

9 Staff numbers and costs

Management and administrative services are provided under the terms of a management agreement by a participating interest. In addition, the parent undertaking employs 3 members of staff. Accordingly, the company has no employees. The remuneration of the directors is charged as part of the management fee.

10 Tax on profits on ordinary activities

	2000 £000	1999 £000
UK corporation tax at 30% (1999: 30%) on profit for		
- current year	3,152	-
- prior year	2,194	(171)
Deferred tax provided on dividend receivable	-	435
	<u> </u>	<u> </u>
	5,346	264
	<u> </u>	<u> </u>

11 Investments in subsidiary and associated undertakings

	Current value		Cost	
	2000 £000	1999 £000	2000 £000	1999 £000
Investments in subsidiary undertakings	18,851	12,221	4,000	4,000
Investment in associated undertaking	13,976	14,340	49	49
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	32,827	26,561	4,049	4,049
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Notes (continued)

11 Investments in subsidiary and associated undertakings (Continued)

Investments in subsidiary and associated undertakings comprise:

	Country of incorporation	Principal Activity	Class of Capital	Percentage held
ICHEM Reinsurance Company Limited	Cayman Islands	Insurance and Reinsurance	Ordinary shares of £1 each	100%
Chemont Insurance Company	USA	Insurance and Reinsurance	Common stock of US\$1 each	100%
I.C. Insurance Holdings Limited	England and Wales	Management and Holding company	Ordinary shares of £1 each	49%
IC Insurance Limited *	England and Wales	Insurance and Reinsurance	Ordinary shares of £1 each	49%

* A wholly-owned subsidiary of I.C. Insurance Holdings Limited.

12 Other financial investments

	Current value		Cost	
	2000	1999	2000	1999
	£000	£000	£000	£000
Fixed income securities	35,000	49,363	36,111	50,782
Deposits with credit institutions	42,230	22,606	42,230	22,606
Loan to fellow subsidiary undertaking	28,040	24,426	28,114	24,426
	<u>105,270</u>	<u>96,395</u>	<u>106,455</u>	<u>97,814</u>
Included in the above, were investments:				
Listed on the UK stock exchange	29,132	44,266	30,089	45,402
Listed on other investment exchanges	5,868	5,097	6,022	5,380
	<u>35,000</u>	<u>49,363</u>	<u>36,111</u>	<u>50,782</u>

Deposits with credit institutions of £13,793,000 (1999: £12,325,000) have been pledged in support of a letter of credit issued by a bank in order to provide security to cedants in respect of claims outstanding. Further letters of credit totalling £345,000 (1999: £671,000) have been issued by a bank on an unsecured basis for similar purposes.

Notes (continued)

13 Technical provisions

	Provision for Unearned Premiums	Claims outstanding	Total
	£000	£000	£000
Gross amount			
At beginning of year	18,764	116,326	135,090
Foreign exchange movement	728	2,906	3,634
Amounts charged per technical account	(1,246)	(15,437)	(16,683)
	<hr/>	<hr/>	<hr/>
Gross amount at 31 December 2000	18,246	103,795	122,041
	<hr/>	<hr/>	<hr/>
Reinsurers' share			
At beginning of year	7,863	69,797	77,660
Foreign exchange movement	(1)	150	149
Amounts charged per technical account	(1,672)	(9,766)	(11,438)
	<hr/>	<hr/>	<hr/>
Reinsurers' share at 31 December 2000	6,190	60,181	66,371
	<hr/>	<hr/>	<hr/>

Under the Insurance Companies (Reserves) Act 1995, the company is required to establish equalisation reserves for certain classes of business underwritten, subject to de minimis exemptions. The calculation at 31 December 2000 did not give rise to the requirement for any reserves and therefore no equalisation reserves have been established.

14 Debtors arising out of direct insurance operations

	2000 £000	1999 £000
Amounts owed by policyholders	-	1
Amounts owed by intermediaries	415	264
Amounts owed by group undertakings	248	124
	<hr/>	<hr/>
	663	389
	<hr/>	<hr/>

15 Debtors arising out reinsurance operations

	2000 £000	1999 £000
Amounts owed by intermediaries	2,834	2,951
Amounts owed by subsidiary undertakings	1,274	6,060
	<hr/>	<hr/>
	4,108	9,011
	<hr/>	<hr/>

Notes (continued)

16 Creditors arising out of direct insurance operations

	2000 £000	1999 £000
Amounts owed to policyholders	-	412
Amounts owed to intermediaries	120	1,066
Amounts owed to group undertakings	983	1,412
	<u>1,103</u>	<u>2,890</u>

17 Creditors arising out of reinsurance operations

	2000 £000	1999 £000
Amounts owed to intermediaries	5,006	3,065
Amounts owed to subsidiary undertakings	1,067	599
	<u>6,073</u>	<u>3,664</u>

18 Other creditors including taxation and social security

	2000 £000	1999 £000
Amounts payable within one year:		
Corporation tax	5,970	-
Other creditors	772	1,047
	<u>6,742</u>	<u>1,047</u>

19 Share capital

	2000 £000	1999 £000
<i>Authorised</i>		
50,000,000 (1999 50,000,000) ordinary shares of £1 each	50,000	50,000
<i>Allotted, called up and fully paid</i>		
34,049,001 (1999 34,049,001) ordinary shares of £1 each	34,049	34,049

Notes (continued)

20 Reserves

	Profit and loss account	Revaluation reserve	Total 2000	Total 1999
	£000	£000	£000	£000
At beginning of year	18,104	22,512	40,616	33,114
Retained (loss)/profit for the year	(1,346)	-	(1,346)	149
Increase in current value of investments in subsidiaries and associated undertakings	-	6,266	6,266	7,353
At end of year	<u>16,758</u>	<u>28,778</u>	<u>45,536</u>	<u>40,616</u>

21 Directors interests

The interests of the directors in office at the end of the financial year in the shares and debentures of ICI (the ultimate parent undertaking) were as follows:

	Class of share/ Debenture	Holding at 31 December 1999 (or date of appointment)	Holding at 31 December 2000
DJ Gee	ICI ordinary shares	-	-
D Taylor	ICI ordinary shares	-	-
IN Canham	ICI ordinary shares	27	27

Options to subscribe for ICI ordinary shares granted to and exercised by the directors in office at the end of the financial year were as follows:

	Shares under option at 31 December 1999 (or date of appointment)	Granted	Exercised	Shares under option at 31 December 2000
DJ Gee	69,900	41,957	-	111,857
D Taylor	-	-	-	-
IN Canham	576	1,278	-	1,854

22 Related party transactions and balances

The company has taken advantage of the exemption from disclosing related party information relating to group undertakings as it is a wholly-owned subsidiary and the consolidated financial statements in which the company is included are publicly available.

23 Ultimate parent company

The company is a subsidiary undertaking of Imperial Chemical Industries PLC which is the ultimate parent company and which is registered in England and Wales.

The largest group in which the results of the company are consolidated is that headed by Imperial Chemical Industries PLC, registered in England and Wales. The consolidated accounts of this company are available to the public and may be obtained from 9 Millbank, London SW1P 3JF. No other group accounts include the results of the company.