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**Wellington
(One) Limited**

Annual report and accounts

1998



WELLINGTON (ONE) LIMITED

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Directors and officers of the Company

Directors

J.R. Avery
T.G.S. Busher
J.M. Cusack
A. Fulkerson
J.A. Haynes
J. Thomson
P. van der Mersch

Resigned

30.6.98
26.6.98

Secretary

T.G.S. Busher

Auditors

KPMG Audit Plc

Registered office

2 Minster Court
Mincing Lane
London
EC3R 7FB

Registered number

2973436

Report of the Directors

The Directors present their report together with the accounts for the year ended 31st December 1998.

Activity and review of developments

The Company acts as a corporate member at Lloyd's and is a wholly owned subsidiary of Wellington Underwriting plc.

Results and dividends

The profit for the year, after taxation, amounted to £400,462 (1997 £351,481).

The Directors recommend a final dividend of £374,000 (1997 £nil).

Year 2000 readiness disclosure

Many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the Year 2000 and beyond. The operation of the Group's business depends not only on its own computer systems, but also to some degree on those of its suppliers and customers. Accordingly, the Group may be exposed to further risk in the event that there is a failure by other parties to remedy their own Year 2000 issues.

A Group-wide programme, designed to address the impact of the Year 2000 on its business, with the approval of the Board, is underway.

An impact analysis has been performed to assess the effect of the Year 2000 on critical business processes and underlying business activities. From this, a strategy has been determined to address the key risks in advance of critical dates which broadly comply with the timetable drawn up in the Lloyd's market.

Lloyd's regulations require market entities to participate in the Lloyd's Year 2000 Certification Scheme. The certification scheme aims to provide evidence that a firm is taking reasonable steps to ensure Year 2000 compliance, against a common set of criteria. These criteria embrace what are considered to be the essential elements that a Lloyd's regulated firm needs to demonstrate, to give confidence regarding their preparedness for Year 2000 to their trading partners in the Market.

The Scheme consisted of three phases in 1998:

- Planning and Control
- Internal Testing
- Market Testing

It is anticipated that at least one further phase of certification, "Contingency Plans", will apply for 1999. To date, Wellington has achieved certification for the Planning and Control, Internal and Market Testing phases in accordance with the agreed timetable. Wellington anticipates complying with all currently proposed future phases.

The risk analysis also considers the impact on our business of Year 2000-related failures by significant suppliers and customers. The plan therefore includes the establishment of a process for the assessment and monitoring of the state of compliance of third party services providers and trading parties.

A further impact identified from the risk analysis is the effect that the Year 2000 issue could have on the underwriting activities of the Group. Measures have been undertaken to assess those areas of business written for which there may be Year 2000 related exposure.

For US law purposes, this disclosure is a Year 2000 Readiness Disclosure within the meaning of the US Year 2000 Information and Readiness Disclosure Act of 1998 to the extent that the disclosure relates to Year 2000 products and services offered by Wellington.

Report of the Directors

Directors

The present Directors of the Company are named on page 2. All Directors held office throughout the year except where otherwise noted.

Directors' interests in shares are covered in note 15 to the accounts.

Auditors

A resolution is to be proposed at the annual general meeting for the re-appointment of KPMG Audit Plc as auditors of the Company.

By order of the Board



T.G.S. Busher
Secretary

10th May 1999

Profit and loss account: technical account – general business

For the year ended 31st December	Notes	1998 £	1997 £
Earned premiums, net of reinsurance			
Gross premiums written			
Continuing operations	2	4,673,521	5,430,093
Discontinued operations	2	996,733	4,090,883
		<u>5,670,254</u>	<u>9,520,976</u>
Outward reinsurance premiums		(4,605,236)	(1,399,413)
Net premiums written		<u>1,065,018</u>	<u>8,121,563</u>
Investment income	3	422,045	249,229
		<u>1,487,063</u>	<u>8,370,792</u>
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(4,180,296)	(3,494,076)
Reinsurers' share		915,840	696,020
		<u>(3,264,456)</u>	<u>(2,798,056)</u>
Change in provision for claims			
Gross amount		3,497,416	(4,306,605)
Reinsurers' share		186,757	692,571
		<u>3,684,173</u>	<u>(3,614,034)</u>
		<u>1,906,780</u>	<u>1,958,702</u>
Operating expenses	4	(1,656,408)	(1,739,543)
Investment expenses and charges		(5,072)	(2,034)
Other technical charges		<u>(8,059)</u>	<u>(15,181)</u>
Balance on technical account - general business			
Continuing operations	2	671,082	803,494
Discontinued operations	2	(433,841)	(601,550)
		<u>237,241</u>	<u>201,944</u>

The notes on pages 8 to 13 form part of these accounts.

The discontinued activities reported above relate to the Company's participation in the UK motor business formerly underwritten by Syndicate 439 and the 1998 year of account of Syndicate 51.

Profit and loss account: non technical account

For the year ended 31st December	Notes	1998 £	1997 £
Balance on technical account - general business		671,082	803,494
Continuing operations		(433,841)	(601,550)
Discontinued operations		237,241	201,944
Investment income	3	299,040	346,793
Unrealised gains on investments		85,004	20,078
Unrealised losses on investments		(1,946)	(4,108)
Other charges	5	(12,241)	(21,037)
Profit on ordinary activities before taxation		1,040,939	1,145,220
Continuing operations		(433,841)	(601,550)
Discontinued operations		607,098	543,670
Tax on profit on ordinary activities	6	(206,636)	(192,189)
Profit on ordinary activities after taxation		400,462	351,481
Dividends	7	(374,000)	-
Retained profit for the period		26,462	351,481

No statement of total recognised gains and losses has been presented as all recognised gains and losses are accounted for by the above profit and loss account.

There is no difference between the profit on ordinary activities before tax and the retained profit for the year and their historical cost equivalents.

The notes on pages 8 to 13 form part of these accounts.

Balance Sheet

At 31 st December	Notes	1998 £	1997 £
ASSETS			
Investments			
Other financial investments	8	9,764,246	7,490,045
Reinsurers' share of technical provisions			
Claims outstanding		1,998,289	1,928,031
Debtors			
Debtors arising out of direct insurance operations		895,324	1,046,758
Debtors arising out of reinsurance operations		1,352,661	4,266,846
Other debtors	9	940,000	301,764
		<u>3,187,985</u>	<u>5,615,368</u>
Other assets			
Cash at bank and in hand		118,269	1,021,547
Prepayments and accrued income		71,245	24,138
Total assets		<u>15,140,034</u>	<u>16,079,129</u>
LIABILITIES			
Capital and reserves			
Called up share capital	10	320,000	320,000
Share premium account	11	2,880,000	2,880,000
Profit and loss account	11	83,538	57,076
Shareholders' funds attributable to equity interests	12	<u>3,283,538</u>	<u>3,257,076</u>
Technical provisions			
Claims outstanding		8,303,625	11,399,373
Creditors			
Creditors arising out of direct insurance operations		254,719	185,217
Creditors arising out of reinsurance operations		1,240,478	156,336
Other creditors including taxation and social security	14	2,026,392	1,060,410
		<u>3,521,589</u>	<u>1,401,963</u>
Accruals and deferred income		31,282	20,717
Total liabilities		<u>15,140,034</u>	<u>16,079,129</u>

The financial statements were approved by the Directors on 10th May 1999.

 J.M. CUSACK Director

 J.R. AVERY Director

The notes on pages 8 to 13 form part of these accounts

Notes to the accounts

1. Accounting policies

Accounting policies which are considered material to the Company's business are set out below:

(a) Basis of accounting and consolidation

The accounts have been prepared in accordance with applicable accounting standards under the historical cost convention, as modified by the revaluation of investments, in compliance with Sections 255 and 255A, Schedule 9A, other requirements of the Companies Act 1985 as amended by the Companies Act 1985 (Insurance Companies) Regulations 1993. The Company has adopted all material recommendations of the guidance on accounting for insurance business set out in the revised Statement of Recommended Practice issued by the Association of British Insurers in December 1998.

The Company underwrites as a corporate member of Lloyd's on syndicates managed by Wellington Underwriting Agencies Limited. The attributable share of transactions of the syndicates has been included in the accounts. The transactions are undertaken within premium trust funds applicable to the syndicates and profits arising from underwriting may only be released in accordance with Lloyd's syndicate accounting rules, usually two years after the end of an underwriting year of account, after satisfying Lloyd's solvency requirements for all years of account open at the time of the release.

The Company has taken advantage of the exemption under FRS 1 (Revised) allowing 90% subsidiaries not to prepare a cash flow statement.

(b) Premiums

Gross premiums written represent premiums on business incepting during the year together with adjustments to premiums written in previous accounting periods and estimates for 'pipeline' premiums. Gross premiums written are stated before deduction of commissions but exclusive of taxes, duties levied on premiums and other deductions.

Outward reinsurance premiums are accounted for in the same accounting period as the related direct insurance or inwards reinsurance business except in relation to excess of loss contracts, where the initial premium is charged when paid.

(c) Investments

Other financial investments are stated at their current value at the balance sheet date. Listed investments are stated at mid-market value at the close of business on the balance sheet date or the last Stock Exchange dealing day before the balance sheet date. The cost of investments is deemed to be the aggregate of the value at the previous balance sheet date and the cost of investments purchased during the calendar year.

(d) Investment income, expenses and charges

Investment income is accounted for on a receivable basis, including, where appropriate, the imputed tax credit. Dividends are recognised on the date on which the stock goes ex-dividend. Investment income is accrued up to the balance sheet date.

Syndicate investments and cash are held on a pooled basis, the return from which is allocated to underwriting years proportionately to the funds contributed by the year. Investment income and all investment gains and losses relating to syndicate investments and cash are dealt with through the technical account. Other investment income and other realised and unrealised gains and losses are dealt with through the non-technical account.

(e) Technical provisions

The underwriting accounts for all classes of business have been prepared on a three year basis. In accordance with Lloyd's normal practice, the excess of premiums written and syndicate investment income over the claims and syndicate expenses paid in respect of business incepting in an underwriting year is carried forward for two years in a fund and no profit is recognised until the end of the third year following the start of each underwriting year. The fund is included as part of outstanding claims. At the end of the third year and thereafter, provision is made for the estimated cost of claims notified but not settled at the balance sheet date together with the estimated costs of claims incurred but not reported at that date and claims handling costs.

Notes to the accounts

1. Accounting policies - continued

(e) Technical provisions - continued

Where appropriate a provision for losses is made in respect of the open underwriting years of each syndicate. While the Directors make every effort to ensure that adequate provision is made for losses on open years of account, their view of the ultimate loss may vary in later periods as a result of subsequent information and events. This in turn may require adjustment of the original provisions. Such adjustments are reflected and disclosed in the financial statements for the period in which the related adjustments are made.

(f) Exchange rates

Syndicate assets, liabilities, income and expenditure expressed in U.S. dollars and Canadian dollars are translated at rates of exchange ruling at the balance sheet date. Underwriting transactions in other foreign currencies are included in the accounts 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.

(g) Deferred taxation

Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which the anticipated timing difference will reverse. Advance corporation tax which is expected to be recoverable in the future is deducted from net deferred tax liabilities. Deferred tax assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

2. (a) Segmental analysis

The following business has all been underwritten in the United Kingdom in the Lloyd's insurance market, which has been treated as one geographical segment for the purposes of Statement of Standard Accounting Practice No. 25: Segmental reporting.

Segmental information in the format required by the Companies Act 1985 is as follows:

	Gross premiums £	Gross claims incurred £	Gross operating expenses £	Reinsurance balance £
1998				
Marine, aviation and transport	286,864	(263,489)	(84,075)	96,167
Fire and other damage to property	677,772	(498,876)	(189,377)	59,576
Third party liability	417,413	(505,786)	(110,446)	142,951
Reinsurance acceptances	3,159,987	1,113,257	(949,862)	(2,920,504)
Motor (third party)	335,957	(17,924)	(93,856)	(274,234)
Motor (other classes)	674,134	(460,409)	(199,838)	(605,082)
Other	118,127	(49,653)	(37,013)	(1,513)
Total	5,670,254	(682,880)	(1,664,467)	(3,502,639)
1997				
Marine, aviation and transport	237,744	(159,769)	(49,541)	(33,797)
Fire and other damage to property	497,069	(359,105)	40,259	(33,862)
Third party liability	271,467	(278,786)	(30,225)	4,095
Reinsurance acceptances	4,330,285	(3,537,577)	(435,310)	303,263
Motor (third party)	1,166,783	(977,632)	(366,117)	(68,471)
Motor (other classes)	2,842,963	(2,357,385)	(789,525)	(171,238)
Other	174,665	(130,427)	(109,084)	(10,812)
Total	9,520,976	(7,800,681)	(1,739,543)	(10,822)

Notes to the accounts

2. (b) Segmental analysis – continued

An analysis of the consolidated profit and loss: technical account – general business between continuing and discontinued operations is as follows:

	<i>Continuing £</i>	<i>Discontinued £</i>	<i>Total £</i>
Earned premiums, net of reinsurance			
Gross premiums written	4,673,521	996,733	5,670,254
Outward reinsurance premiums	(2,918,395)	(1,686,841)	(4,605,236)
	<u>1,755,126</u>	<u>(690,108)</u>	<u>1,065,018</u>
Investment income	<u>308,534</u>	<u>113,511</u>	<u>422,045</u>
	<u>2,063,660</u>	<u>(576,597)</u>	<u>1,487,063</u>
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	(1,525,782)	(2,654,514)	(4,180,296)
Reinsurers' share	566,237	349,603	915,840
	<u>(959,545)</u>	<u>(2,304,911)</u>	<u>(3,264,456)</u>
Change in provision for claims			
Gross amount	(151,714)	3,649,130	3,497,416
Reinsurers' share	1,094,273	(907,516)	186,757
	<u>942,559</u>	<u>2,741,614</u>	<u>3,684,173</u>
	<u>2,046,674</u>	<u>(139,894)</u>	<u>1,906,780</u>
Operating expenses	(1,363,122)	(293,286)	(1,656,408)
Investment expenses and charges	(4,411)	(661)	(5,072)
Other technical charges	(8,059)	-	(8,059)
Balance on technical account	<u>671,082</u>	<u>(433,841)</u>	<u>237,241</u>

3. Investment income

	<i>1998 £</i>	<i>1997 £</i>
Income from listed investments	545,634	516,948
Bank and deposit interest	131,650	49,196
Gains on realisation of investments	43,801	29,878
	<u>721,085</u>	<u>596,022</u>
Attributed to technical account	422,045	249,229
Attributed to non technical account	299,040	346,793
	<u>721,085</u>	<u>596,022</u>

Notes to the accounts

4. Operating expenses

	1998 £	1997 £
Brokerage and other business acquisition costs	1,099,614	966,802
Administration expenses	556,794	772,741
	<u>1,656,408</u>	<u>1,739,543</u>

5. Other charges

	1998 £	1997 £
Other charges include:		
Auditors' remuneration - audit work	4,837	3,150
- non audit work	1,051	1,350
	<u>1,051</u>	<u>1,350</u>

The Company had no employees during 1998 and 1997.

No Directors emoluments were charged to the Company in the year.

6. Taxation on profit on ordinary activities

	1998 £	1997 £
U.K. corporation tax at 31% (1997: 31.5%)	359,159	107,644
Less relief for overseas tax	(93,320)	-
	<u>265,839</u>	<u>107,644</u>
Under provision in previous year	421	280
Deferred taxation:		
- effect of change in tax rate	-	15,288
- (credit)/charge for the year	(161,975)	68,977
Overseas tax suffered	102,351	
	<u>206,636</u>	<u>192,189</u>

7. Dividends

	1998 £	1997 £
Final dividend of 11.69 pence (1997 nil) per ordinary share	374,000	-
	<u>374,000</u>	<u>-</u>

Notes to the accounts

8. Other financial investments

	1998		1997	
	Market value	Cost	Market value	Cost
	£	£	£	£
Shares and other variable yield securities	2,278,255	2,228,265	-	-
Debt securities and other fixed income securities	5,262,185	5,141,495	4,092,073	4,051,430
Participation in investment pools	1,092,967	1,088,587	329,208	328,194
Loans guaranteed by mortgage	626	607	-	-
Deposits with credit institutions	1,130,213	1,130,213	3,068,764	3,068,764
Total	<u>9,764,246</u>	<u>9,589,167</u>	<u>7,490,045</u>	<u>7,448,388</u>

The above investments include £4,577,533 in respect of the Company's funds at Lloyd's, which are required to support underwriting. All corporate investments are subject to fixed and floating charges.

Deposits with credit institutions include £414,933 (1997 £903,861) which has been deposited with third parties in connection with certain syndicates' overseas liabilities.

9. Other debtors

	1998	1997
	£	£
Due from parent company	36,910	-
Amounts recoverable in respect of income taxation	32,110	47,595
Amounts recoverable in respect of US Federal Income Tax	93,319	-
Deferred taxation (note 13)	265,710	103,735
Other	<u>511,951</u>	<u>150,434</u>
	<u>940,000</u>	<u>301,764</u>

10. Called up share capital

	Authorised 1997 and 1998	Allotted, called up and fully paid 1997 and 1998
	£	£
Ordinary shares of 10p each 1st January and 31st December	<u>1,500,000</u>	<u>320,000</u>

11. Reserves

	Profit and loss account	Share premium account
	£	£
Balance at 1st January 1998	57,076	2,880,000
Retained profit for the year	<u>26,462</u>	-
Balance at 31st December 1998	<u>83,538</u>	<u>2,880,000</u>

Notes to the accounts

12. Reconciliation of movements in shareholders' funds

	1998 £	1997 £
Profit for the period	400,462	351,481
Dividends	(374,000)	-
Net addition to shareholders' funds	26,462	351,481
Opening shareholders' funds	3,257,076	2,905,595
Closing shareholders' funds	3,283,538	3,257,076

13. Deferred taxation

	1998 £	1997 £
Deferred tax (assets)/liabilities relating to:		
Underwriting loss provisions	(342,823)	(352,818)
Underwriting profits	62,802	249,083
Other timing differences	14,311	-
	(265,710)	(103,735)
Balance at 1st January	(103,735)	(188,000)
Amounts (credited)/charged to profit and loss account	(161,975)	84,265
Balance at 31st December	(265,710)	(103,735)

14. Other creditors including taxation and social security

	1998 £	1997 £
Proposed dividend	374,000	-
UK Corporation tax	359,159	107,924
Other creditors	1,293,233	952,486
	2,026,392	1,060,410

15. Directors' disclosure

Interest in shares

The register kept for the purposes of the Companies Act 1985 discloses that no Director of the Company had any interest in the Company's shares, or in the shares of any Group Company except for the Holding Company, Wellington Underwriting plc.

The interests in the shares of Group undertakings of the Directors, who held office at the year end, all of whom are Directors of Wellington Underwriting plc are shown in the Report and Accounts of that Company.

16. Holding company

The Company is a wholly owned subsidiary of Wellington Underwriting plc, a company registered in England and Wales. The results of the Company are consolidated in the Group accounts of Wellington Underwriting plc, copies of which are available from the registered office.

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 of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

- (a) select suitable accounting policies and then apply them consistently;
- (b) make judgements and estimates that are reasonable and prudent;
- (c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- (d) 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 provisions of 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 or other irregularities.

Report of the Auditors to the members of Wellington (One) Limited

We have audited the financial statements on pages 5 to 13.

Respective responsibilities of Directors and Auditors

As described above the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31st December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG audit
KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

10th May 1999

Wellington (One) Limited
Detailed profit and loss account

	<i>1998</i> <i>£</i>	<i>1997</i> <i>£</i>
Technical account balance	237,241	201,944
Non technical account:		
Income		
Investment income	167,390	297,597
Bank interest receivable	131,650	49,196
Unrealised loss on investments	(1,946)	(4,108)
Unrealised gain on investments	85,004	20,078
	382,098	362,763
Expenses		
Accountancy, legal and professional	(1,064)	(19,201)
Audit fees	(4,837)	(3,150)
Sundries	(6,340)	1,314
	(12,241)	(21,037)
Profit before taxation	607,098	543,670