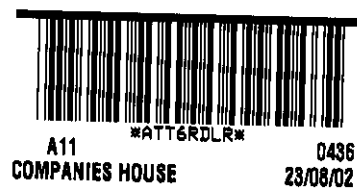


FM Insurance Company Limited

Consolidated financial statements for the year ended 31 December 2001

Registered number: 755780



FM Insurance Company Limited

*Consolidated financial statements
for the year ended 31 December 2001*

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FM Insurance Company Limited

Directors' report for the year ended 31 December 2001

The directors present their annual accounts for the year ended 31 December 2001.

Principal activity

The principal activity of the group consists of underwriting property insurance risks out of the UK, and through branches in Australia, France and Germany. Risks written out of Eire in prior years are now running off in the UK.

The company is wholly owned by, and places reinsurance with, Factory Mutual Insurance Company located in Johnston, Rhode Island, USA, (the "Parent").

Review of the Business and Future Developments

On August 1, 2001, the directors of Allendale International Limited and Arkwright International Limited placed the companies in Members Voluntary Liquidation. On December 3, 2001, the application to de-register Protection International Australia Pty. Limited was approved by the Australian Securities & Investments Commission.

On November 29, 2001, the directors resolved that the authorised share capital of the company be increased from £50,000,000 to £100,000,000, by the creation of 50,000,000 shares of £1 each in the capital of the company. It was further resolved that the directors be authorised to issue a further 27,851,852 shares at £1 each to the Parent for cash.

Results and Dividends

The results of the group's operations for the financial year are set out on pages 6 and 7 and the financial position of the group at the end of the financial year is set out on pages 8 and 9.

The directors do not recommend the payment of a dividend.

The loss for the year retained in the group is £8,000 (2000: Profit £1,930,000).

Directors and employees

The directors who held office during the year were as follows:

Kenneth W. Davey	Managing Director	
Shivan S. Subramaniam	(USA)	
James W. Black	(USA)	Died in office 31 August 2001
Antonius R.H. Bosman	(USA)	Appointed 11 June 2001

No directors had any interest in the shares of the company during the year.

Details of employees are set out in note 8 to the financial statements.

Changes in fixed assets

The movements in fixed assets during the year are set out in Notes 14 & 15 to the financial statements.

FM Insurance Company Limited

Directors' report for the year ended 31 December 2001

Political and charitable contributions

The company made no political contributions during the year. Charitable donations amounted to £9,191 (2000: £14,845).

Insurance of directors

Insurance is maintained for the directors in respect of their duties as directors of the group.

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 group and of the profit or loss of the group 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 group 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 group and to prevent and detect fraud and other irregularities.

The directors confirm that they are not aware of any actual or potential non-compliance with laws and regulations that could have a material effect on the ability of the group to conduct its business and therefore on the results and financial position to be disclosed in the financial statements. The directors also confirm that all material related party transactions relevant to the group have been disclosed and that they are not aware of any other matters that need to be disclosed, whether under FRS 8 or other requirements.

Auditors

Pursuant to a shareholders' resolution the company is not obliged to reappoint its auditor annually and KPMG Audit Plc will therefore continue in office.

By order of the board



**Kenneth W. Davey
Managing Director**

FM Insurance Company Limited

KPMG Audit Plc

PO Box 695
8 Salisbury Square
London
EC4Y 8BB

Independent Auditor's report to the members of FM Insurance Company Limited

We have audited the financial statements on pages 6 to 27.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, 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 1985. We also report to you, if, in our opinion, the directors' report is not consistent with the financial statement, 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 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.

Equalisation reserves

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amounts set aside at 31 December 2001 and the effect of the movement in those reserves during the year on the general business technical result and profit before tax, is disclosed in note 20.

FM Insurance Company Limited

Independent Auditor's report to the members of FM Insurance Company Limited (contd.)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2001 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

William A. Smith

W. A. Smith

KPMG Audit Plc
Chartered Accountants
Registered Auditor

London

FM Insurance Company Limited

Consolidated profit and loss account: technical account – general business for the year ended 31 December 2001

	<i>Note</i>	2001		2000	
		£000	£000	£000	£000
Gross premiums written	3	196,804		151,726	
Outward reinsurance premiums		<u>(179,535)</u>		<u>(139,585)</u>	
			17,269		12,141
Change in the gross provision for unearned premiums	20	(32,322)		(7,662)	
Change in the provision for unearned premiums, reinsurers' share	20	<u>29,195</u>		<u>6,865</u>	
			<u>(3,127)</u>		<u>(797)</u>
Earned premiums, net of reinsurance			14,142		11,344
Other technical income	1		1,539		1,625
Claims paid					
Gross amount		(109,143)		(141,841)	
Reinsurers' share		<u>101,082</u>		<u>134,637</u>	
			(8,061)		(7,204)
Change in the provision for claims					
Gross amount	20	31,106		95,077	
Reinsurers' share		<u>(32,138)</u>		<u>(94,672)</u>	
			(1,032)		405
Claims incurred, net of reinsurance			(9,093)		(6,799)
Net operating expenses	5		(6,882)		(5,128)
Change in equalisation provision	20		<u>(518)</u>		<u>(364)</u>
Balance on the technical account for general business			<u>(812)</u>		<u>678</u>

FM Insurance Company Limited

Consolidated profit and loss account: non-technical account for the year ended 31 December 2001

	<i>Note</i>	2001 £000	2000 £000
Balance on the general business technical account		(812)	678
Investment income and gains on realisation of investments	4	<u>1,358</u>	<u>1,066</u>
Operating profit		546	1,744
Exchange (loss)/profit on branch capital revaluation		<u>(57)</u>	<u>276</u>
Profit on ordinary activities before taxation	6	489	2,020
Tax on profit on ordinary activities	9	<u>(497)</u>	<u>(90)</u>
(Loss)/profit for the financial year after tax		<u>(8)</u>	<u>1,930</u>
Retained (loss)/profit for the financial year transferred to reserves		<u>(8)</u>	<u>1,930</u>

Statement of recognised gains and losses for the year ended 31 December 2001

	<i>Note</i>	2001 £000	2000 £000
(Loss)/profit for the year		(8)	1,930
Increase in revaluation reserve:			
Land and buildings	18	109	82
Net currency differences on investments in foreign branches, land and buildings	18	<u>52</u>	<u>(329)</u>
Total recognised gains and losses relating to the year		<u>153</u>	<u>1,683</u>

FM Insurance Company Limited

*Consolidated balance sheet
at 31 December 2001*

		2001		2000	
	Note	£000	£000	£000	£000
Assets					
<i>Investments</i>					
Land and buildings	10	1,290		1,224	
Other financial investments	12	<u>153</u>		<u>143</u>	
			1,443		1,367
<i>Reinsurers' share of technical provisions</i>					
Provision for unearned premiums	20	79,005		50,461	
Claims outstanding	20	<u>124,182</u>		<u>155,644</u>	
			203,187		206,105
<i>Debtors</i>					
Debtors arising out of direct insurance operations	13	100,491		78,963	
Debtors arising out of reinsurance operations		54,406		37,994	
Other debtors		<u>6,288</u>		<u>3,959</u>	
			161,185		120,916
<i>Other assets</i>					
Tangible assets	14	6,226		6,069	
Cash at bank and in hand	16	<u>31,137</u>		<u>23,572</u>	
			37,363		29,641
<i>Prepayments and accrued income</i>					
Deferred acquisition costs	20	3,587		3,216	
Other prepayments and accrued income		<u>336</u>		<u>184</u>	
			3,923		3,400
<i>Total assets</i>			<u>407,101</u>		<u>361,429</u>

FM Insurance Company Limited

Consolidated balance sheet at 31 December 2001

		2001		2000	
	Note	£000	£000	£000	£000
Liabilities					
<i>Capital and reserves</i>					
Called up share capital	17	63,000		35,148	
Share premium reserve		978		978	
Revaluation reserve	18	1,140		992	
Profit and loss account	18	(484)		(489)	
Shareholder's funds attributable to equity interests			64,634		36,629
<i>Technical provisions</i>					
Provision for unearned premiums	20	86,517		54,958	
Claims outstanding	20	134,483		164,922	
Equalisation reserves	20	2,164		1,643	
			223,164		221,523
<i>Provisions for other risks and charges</i>	21		501		1,101
<i>Creditors</i>					
Creditors arising out of direct insurance operations		97,149		86,895	
Other creditors including taxation and social security	23	15,225		6,554	
			112,374		93,449
<i>Accruals and deferred income</i>	25		6,428		8,727
<i>Total liabilities</i>			407,101		361,429

These financial statements were approved by the board of directors on 10 April 2002 and were signed on its behalf by



Kenneth W. Davey
Managing Director

FM Insurance Company Limited

Company balance sheet at 31 December 2001

		2001		2000	
	Note	£000	£000	£000	£000
Assets					
<i>Investments</i>					
Land and buildings	10	1,290		1,224	
Other financial investments	12	153		143	
Investments in subsidiary undertakings	11	63		6,201	
			1,506		7,568
<i>Reinsurers' share of technical provisions</i>					
Provision for unearned premiums	20	79,005		50,461	
Claims outstanding	20	124,182		155,644	
			203,187		206,105
<i>Debtors</i>					
Debtors arising out of direct insurance operations	13	100,491		78,963	
Debtors arising out of reinsurance operations		54,406		37,994	
Other debtors		5,436		3,372	
			160,033		120,329
<i>Other assets</i>					
Tangible assets	15	5,894		5,799	
Cash at bank and in hand	16	30,798		23,016	
			36,692		28,815
<i>Prepayments and accrued income</i>					
Deferred acquisition costs	20	3,587		3,216	
Other prepayments and accrued income		272		102	
			3,859		3,318
Total assets		405,577		366,135	

FM Insurance Company Limited

Company balance sheet at 31 December 2001

		2001		2000	
	Note	£000	£000	£000	£000
Liabilities					
<i>Capital and reserves</i>					
Called up share capital	17	63,000		35,148	
Share Premium Reserve		978		978	
Revaluation reserve	18	1,140		992	
Profit and loss account	18	(554)		(891)	
Shareholder's funds attributable to equity interests			64,564		36,227
<i>Technical provisions</i>					
Provision for unearned premiums	20	86,517		54,958	
Claims outstanding	20	134,483		164,922	
Equalisation reserves	20	2,164		1,643	
			223,164		221,523
<i>Provisions for other risks and charges</i>	21		501		1,101
<i>Creditors</i>					
Creditors arising out of direct insurance operations		97,149		86,895	
Other creditors including taxation and social security	23	14,133		11,921	
			111,282		98,816
<i>Accruals and deferred income</i>	25		6,066		8,468
<i>Total liabilities</i>			405,577		366,135

These financial statements were approved by the board of directors on 10 April 2002 and were signed on its behalf by



Kenneth W. Davey
Managing Director

Notes to the consolidated financial statements for the year ended 31 December 2001

1 Basis of preparation

The financial statements have been prepared in accordance with the accounting policies set out below and comply with the special provisions relating to insurance companies in section 255 of, and schedule 9a to the Companies Act 1985. The recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in November 1999 have been adopted.

Consolidated financial statements have been prepared. These financial statements therefore present information about the company and its subsidiaries as set out in note 11. No profit and loss account is presented for the company as permitted by Section 230 of the Companies Act 1985.

The group has taken advantage of the exemption under FRS8 Related Party Disclosures not to disclose related party information. The company is the wholly owned subsidiary of Factory Mutual Insurance Company, the registered office of which is 1301 Atwood Avenue, PO Box 7500, Johnston RI 02919, USA. The group has taken advantage of the exemption under FRS 1 Cash Flow Statements (Revised) not to prepare a cash flow statement.

During the year the group changed the accounting presentation adopted in respect of Other Technical Income which was previously shown inclusive of amounts collected on behalf of the Parent. The group now shows the retained portion of Other Technical Income, as this presentation is considered more appropriate. The comparative amounts have been restated accordingly.

2 Accounting policies

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

Premiums

Written premiums, gross of commission, comprise the premiums receivable for the whole period of cover provided by contracts incepting during the financial year, and are stated before commissions, taxes and duties levied on premiums.

Premiums written are accounted for in the year in which the risk incepts and include adjustments to premiums written in prior accounting periods and estimates for "pipeline" premiums. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related inwards direct insurance business.

Unearned premiums

The provision for unearned premiums comprises the amount representing that part of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro rata method and taking into account the risk profile of the contracts.

Notes to the consolidated financial statements for the year ended 31 December 2001

2 Accounting policies (continued)

Acquisition costs

Acquisition costs comprise the expenses, both direct and indirect, of acquiring insurance policies incepting during the financial year. Acquisition costs which relate to a subsequent financial year are deferred and charged to the accounting periods in which the related premiums are earned. Deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds to the proportion of gross premiums written which are unearned at the balance sheet date.

Claims

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

Claims outstanding

Outstanding claims comprise provisions for the estimated costs of settling all claims incurred up to but not paid at the balance sheet date whether reported or not, together with related claims handling expenses.

The provision for claims outstanding is based on information available at the balance sheet date. Significant delays can be experienced in the notification and settlement of certain claims and accordingly, the ultimate cost of such claims cannot be known with certainty at the balance sheet date. Subsequent information and events may result in the ultimate liability being less than or greater than the amount provided. Any differences between provisions and subsequent settlements are dealt with in the technical account – general business of later years.

Unexpired risks

Provision is made for unexpired risks where the claims and administrative expenses likely to arise after the end of the financial year in respect of contracts concluded before that date are expected to exceed the unearned premiums and premiums receivable under these contracts.

Investment income and gains on realisation of investments

Investment income is accounted for on a receivable basis. Realised gains or losses represent the difference between net sales proceeds and purchase price or, if previously valued, the valuation at the last balance sheet date.

Unrealised gains and losses on investments

Unrealised gains and losses represent the difference between the valuation of investments at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date. All unrealised gains and losses are taken to the non-technical account except for unrealised gains and losses on land and buildings, which are taken directly to the revaluation reserve.

Notes to the consolidated financial statements for the year ended 31 December 2001

2 Accounting policies (continued)

Equalisation reserves

The equalisation reserves are required to be maintained by the Insurance Companies (Reserves) Regulations 1997. The reserves are established in accordance with those Regulations and are over and above the provisions required to meet the estimated costs of settling outstanding claims.

Investments

All investments are stated at their current value. Listed investments are stated at mid market value. Unlisted investments for which a market exists are valued at the average price at which they were traded on the balance sheet date. Investments in subsidiary undertakings are valued by the directors on a prudent basis with regard to their likely realisable values.

Land and buildings occupied by the company for its own activities are stated at market value, less accumulated depreciation of buildings at the rate of 6.67% per annum of market value.

Fixed assets

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by instalments over their estimated useful economic lives as follows:

Office equipment	20% of cost per annum
Office Furniture	10% of cost per annum
Computer equipment	33.3% of cost per annum
Motor vehicles	25% of the net book value per annum
Property Improvements	10% of cost per annum

Leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the revenue account on a straight line basis over the life of the lease.

Foreign currencies

Assets and liabilities in foreign currencies are translated at rates ruling at the end of the financial year. Revenue items arising from insurance and non insurance operations in foreign currencies are translated at rates ruling at the end of the financial year.

Differences on exchange arising from the retranslation of the opening net investment in overseas branches are taken to reserves.

*Notes to the consolidated financial statements
for the year ended 31 December 2001*

2 Accounting policies (continued)

Pensions

The company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company and the fund is managed by an independent investment manager. Contributions to the scheme are charged to the revenue account so as to spread the cost of pensions over employees' working lives with the company.

Taxation

The charge for taxation is based on the profit for the year 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 an actual liability or asset will crystallise.

3 Segmental information

Analysis of premiums, profit before taxation and net assets

	2001			2000		
	Gross premium Written £000	Profit/(loss) before tax £000	Net assets £000	Gross premium written £000	Profit/(loss) before tax £000	Net assets £000
<i>By geographical segment</i>						
United Kingdom	149,759	(1,280)	59,459	106,956	2,716	31,540
Germany	13,558	(506)	1,527	13,584	212	1,471
France	18,244	(1,382)	1,821	18,113	(66)	1,754
Australia	15,243	3,657	1,827	13,073	(842)	1,864
Total	<u>196,804</u>	<u>489</u>	<u>64,634</u>	<u>151,726</u>	<u>2,020</u>	<u>36,629</u>

Subsidiaries are included in the UK figures.

The regional offices are funded for their operational and capital requirements through inter-office accounts.

	2001			2000		
	Gross premium written £000	Profit before tax £000	Net assets £000	Gross premium written £000	Loss before tax £000	Net assets £000
By class of business:						
Direct	<u>196,804</u>	<u>489</u>	<u>64,634</u>	<u>151,726</u>	<u>2,020</u>	<u>36,629</u>

*Notes to the consolidated financial statements
for the year ended 31 December 2001*

3 Segmental information (continued)

Analysis of gross written premiums

	2001 £000	2000 £000
Resulting from contracts concluded by the company:		
In the EU member state of its head office	149,759	106,956
In the other EU member states	31,802	31,697
In other countries	15,243	13,073
	<u>196,804</u>	<u>151,726</u>

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

	2001				
	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000
Direct insurance:					
Goods in transit	162	243	(3,590)	(46)	(27)
Property damage	150,137	126,665	(55,560)	(42,178)	(25,168)
General liability	-	-	275	-	-
Pecuniary loss	46,505	37,574	(19,162)	(13,064)	(7,795)
Total	<u>196,804</u>	<u>164,482</u>	<u>(78,037)</u>	<u>(55,288)</u>	<u>(32,990)</u>

	2000				
	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000
Direct insurance:					
Goods in transit	(500)	(519)	(4,249)	-	-
Property damage	117,021	111,392	(14,741)	(34,276)	(49,473)
General liability	-	-	(2,081)	-	-
Pecuniary loss	35,205	33,191	(25,693)	(10,356)	(14,778)
Total	<u>151,726</u>	<u>144,064</u>	<u>(46,764)</u>	<u>(44,632)</u>	<u>(64,251)</u>

*Notes to the consolidated financial statements
for the year ended 31 December 2001*

4 Investment income

	2001 £000	2000 £000
Interest from investments (listed government bonds)	16	11
Net interest from bank accounts, fixed deposits etc.	<u>1,342</u>	<u>1,055</u>
	<u>1,358</u>	<u>1,066</u>

5 Net operating expenses

	2001 £000	2000 £000
Acquisition costs	19,079	17,365
Change in gross deferred acquisition costs	<u>(454)</u>	<u>(1,127)</u>
	18,625	16,238
Administrative expenses	<u>36,663</u>	<u>28,394</u>
Gross operating expenses	55,288	44,632
Reinsurance commissions	(49,591)	(39,878)
Change in deferred reinsurance commission	<u>1,185</u>	<u>374</u>
	<u>6,882</u>	<u>5,128</u>

6 Profit on ordinary activities before tax

	2001 £000	2000 £000
<i>Profit on ordinary activities before tax is stated after charging the following:</i>		
Loss on foreign exchange	833	1,125
Loss on sale of fixed assets	165	4
Depreciation	1,520	1,105
Finance charges in respect of finance leases	18	18
Rentals under operating leases on plant and machinery	414	922
Rentals under other operating leases	2,691	2,483
Audit fees and related expenses	108	94
Auditors remuneration for other work	<u>28</u>	<u>17</u>

*Notes to the consolidated financial statements
for the year ended 31 December 2001*

7 Remuneration of directors

	2001 £000	2000 £000
Directors' emoluments attributable to the highest paid director in respect of qualifying services	<u>336</u>	<u>361</u>

No other director received or waived any emoluments in respect of the year ended 31 December 2001.

	2001	2000
Retirement benefits are accruing to the following number of directors under defined benefit schemes.	<u>1</u>	<u>1</u>

Savings and retirement benefits are accruing to one director under 401 (k) Savings and Investment plans. No other pension benefits are accruing to any director.

8 Staff numbers and costs

The average number of employees of the group during the year ended 31 December 2001 was 617 (2000: 637).

Staff costs consist of:

	2001 £000	2000 £000
Wages and salaries	20,893	19,212
Social security costs	3,835	3,825
Other pension costs	<u>1,694</u>	<u>1,507</u>
	<u>26,422</u>	<u>24,544</u>

*Notes to the consolidated financial statements
for the year ended 31 December 2001*

9 Taxation on profit on ordinary activities

The charge to taxation is made up as follows:

	2001 £000	2000 £000
UK	48	-
Overseas taxation	269	134
(Over)/under provision in respect of prior years	154	(44)
	<u>471</u>	<u>90</u>

The taxation provision in respect of the retranslation of the opening net investment in the overseas branches is taken directly to reserves; the overall taxation provision being allocated as follows:

	2001 £000	2000 £000
Taxation taken to reserves	(26)	-
Taxation in respect of trading operations	497	90
Corporation tax charge	<u>471</u>	<u>90</u>

10 Consolidated and Company - Land and buildings

	2001 £000	2000 £000
Short leasehold building		
<i>Valuation</i>		
At beginning of year	1,224	1,287
Exchange adjustments	47	-
Revaluation	19	(63)
At end of year	<u>1,290</u>	<u>1,224</u>
<i>Depreciation</i>		
At beginning of year	-	-
Charge for year	99	82
Revaluation	(99)	(82)
At end of year	<u>-</u>	<u>-</u>
<i>Net book value</i>		
At 31 December	<u>1,290</u>	<u>1,224</u>

The short leasehold building, which is occupied by the company for its own activities, is held under a finance lease expiring in 2002. Land and buildings were valued on an open market basis at 31 December 2001 by an independent property valuer, Expertises Galtier, Insurance Commission licensee.

*Notes to the consolidated financial statements
for the year ended 31 December 2001*

11 Company investment in subsidiary undertakings:

	2001 £000	2000 £000
At 1 January	6,201	6,195
Disposals	(6,126)	-
Exchange difference	(12)	6
At 31 December	<u>63</u>	<u>6,201</u>

Particulars of subsidiary undertakings (ordinary shares) included in these consolidated financial statements are as follows:

Subsidiary	Country of Incorporation	Percentage ownership	Nature of business
FM do Brasil Servicos de Prevencao de Perdas Ltda.	Brazil	99%	Engineering Services
Factory Mutual International Italia Srl	Italy	100%	Engineering Services
FMI Services Venezuela CA	Venezuela	97%	Engineering Services
FM Engineering International Limited	UK	100%	Engineering Services
Allendale International Limited (In liquidation)	UK	100%	Managing General Agency
Arkwright International Limited (In liquidation)	UK	100%	Managing General Agency
Park PM International Limited (In liquidation)	UK	100%	Managing General Agency
Protection International Australia Pty Ltd (De-registration approved)	Australia	100%	Managing General Agency

12 Consolidated and Company - Other financial investments

	2001 £000	2000 £000
<i>Market value</i>		
Overseas listed investments	<u>153</u>	<u>143</u>
<i>Cost</i>		
Overseas listed investments	<u>158</u>	<u>153</u>

13 Consolidated and Company - Debtors arising out of direct insurance operations

	2001 £000	2000 £000
Amounts owed by policyholders	<u>100,491</u>	<u>78,963</u>

*Notes to the consolidated financial statements
for the year ended 31 December 2001*

14 Consolidated tangible fixed assets

	Equipment Furniture and computers £000	Motor vehicles £000	Total £000
<i>Cost</i>			
At beginning of year	8,122	1,650	9,772
Additions	1,390	461	1,851
Disposals	(237)	(387)	(624)
Exchange adjustments	(69)	(21)	(90)
At end of year	<u>9,206</u>	<u>1,703</u>	<u>10,909</u>
<i>Depreciation</i>			
At beginning of year	3,008	700	3,708
Charge for year	1,126	295	1,421
Disposals	(26)	(271)	(297)
Exchange adjustments	(111)	(38)	(149)
At end of year	<u>3,997</u>	<u>686</u>	<u>4,683</u>
<i>Net book value</i>			
At 31 December 2001	<u>5,209</u>	<u>1,017</u>	<u>6,226</u>
At 31 December 2000	<u>5,114</u>	<u>955</u>	<u>6,069</u>

*Notes to the consolidated financial statements
for the year ended 31 December 2001*

15 Company tangible fixed assets

	Equipment Furniture and computers £000	Motor Vehicles £000	Total £000
<i>Cost</i>			
At beginning of year	7,712	1,468	9,180
Additions	1,301	461	1,762
Disposals	(237)	(387)	(624)
Exchange adjustments	19	(21)	(2)
At end of year	<u>8,795</u>	<u>1,521</u>	<u>10,316</u>
<i>Depreciation</i>			
At beginning of year	2,742	640	3,382
Charge for year	1,057	259	1,316
Disposals	(26)	(271)	(297)
Exchange adjustments	31	(10)	21
At end of year	<u>3,804</u>	<u>618</u>	<u>4,422</u>
<i>Net book value</i>			
At 31 December 2001	<u>4,991</u>	<u>903</u>	<u>5,894</u>
At 31 December 2000	<u>4,970</u>	<u>829</u>	<u>5,799</u>

16 Collateral deposits

Included in cash at bank are amounts totalling £265,000 (2000: £217,000) which have been deposited with third parties to secure certain liabilities.

17 Share capital

	2001 £000	2000 £000
<i>Authorised</i>		
Ordinary shares of £1 each	<u>100,000</u>	<u>50,000</u>
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	<u>63,000</u>	<u>35,148</u>

*Notes to the consolidated financial statements
for the year ended 31 December 2001*

18 Reserves

	Revaluation reserve	Profit and loss account	Total
	£000	£000	£000
At beginning of year	992	(489)	503
Profit for the year	-	(8)	(8)
Revaluation of land and buildings	109	-	109
Net currency translation differences	39	13	52
	<u>1,140</u>	<u>(484)</u>	<u>656</u>
At end of year			

Of the loss for the financial year of £8,000 (2000: Profit £1,930,000) shown in the consolidated profit and loss account, Profit of £294,000 (2000: Profit £1,885,000) is dealt with in the financial statements of the company. The company revaluation reserve did not differ from the group reserve. The company profit and loss account reserve is a retained deficit of £554,000 (2000: £891,000).

19 Reconciliation of movements in consolidated shareholder's funds

	2001 £000	2000 £000
(Loss)/profit for the financial year	(8)	1,930
Other gains and losses relating to the year (net)	161	(247)
Issued share capital	<u>27,852</u>	<u>-</u>
Net addition to shareholder's funds	28,005	1,683
Opening shareholder's funds:	<u>36,629</u>	<u>34,946</u>
Closing shareholder's funds	<u>64,634</u>	<u>36,629</u>

Reconciliation of movements in company shareholder's funds

	2001 £000	2000 £000
Profit for the financial year	294	1,884
Other gains and losses relating to the year (net)	188	(80)
Issued share capital	<u>27,852</u>	<u>-</u>
Net addition to shareholder's funds	28,334	1,804
Opening shareholder's funds:	<u>36,227</u>	<u>34,423</u>
Closing shareholder's funds	<u>64,561</u>	<u>36,227</u>

*Notes to the consolidated financial statements
for the year ended 31 December 2001*

20 Consolidated and Company - Technical provisions and deferred acquisition costs

	Provision for unearned premiums £000	Claims Outstanding £000	Equalisation Reserve £000	Total £000
<i>Gross amount</i>				
At beginning of year	54,958	164,922	1,643	221,523
Exchange movements	(763)	667	3	(93)
Movement in the provision	32,322	(31,106)	518	1,734
At end of year	<u>86,517</u>	<u>134,483</u>	<u>2,164</u>	<u>223,164</u>
<i>Reinsurance amount</i>				
At beginning of year	50,461	155,644	-	206,105
Exchange movements	(651)	676	-	320
Movement in the provision	29,195	(32,138)	-	(3,238)
At end of year	<u>79,005</u>	<u>124,182</u>	<u>-</u>	<u>203,187</u>
<i>Net technical provisions</i>				
At end of year	<u>7,512</u>	<u>10,301</u>	<u>2,164</u>	<u>19,977</u>
At beginning of year	<u>4,497</u>	<u>9,278</u>	<u>1,643</u>	<u>15,418</u>
			2001 £000	2000 £000
Net technical provisions at end of year			19,977	15,418
Deferred acquisition costs:				
Gross			(3,587)	(3,216)
Reinsurance commissions			<u>2,511</u>	<u>1,327</u>
Net insurance funds			<u>18,901</u>	<u>13,529</u>

There has been no material under or over provision for general business claims in respect of prior years.

*Notes to the consolidated financial statements
for the year ended 31 December 2001*

21 Provision for other risks and charges

	Provision for taxation including deferred taxation	Provision for merger integration and other costs	Total
	£000	£000	£000
At beginning of year	96	1,005	1,101
Movement during the year	19	(619)	(600)
At end of year	<u>115</u>	<u>386</u>	<u>501</u>

The amounts provided for deferred taxation and the amounts not provided are set out in note 22 below.

22 Deferred taxation

	2001		2000	
	Provided £000	Unprovided £000	Provided £000	Unprovided £000
Depreciation in excess of capital allowances	-	(71)	-	(71)
Revaluation of land and buildings	115	-	96	-
	<u>115</u>	<u>(71)</u>	<u>96</u>	<u>(71)</u>

23 Consolidated - Other creditors including taxation and social security

	2001 £000	2000 £000
Corporation taxation payable	417	43
Social security	1,978	2,144
Other	12,830	4,367
	<u>15,225</u>	<u>6,554</u>

Company - Other creditors including taxation and social security

	2001 £000	2000 £000
Corporation taxation payable	451	(10)
Social security	1,800	1,803
Other	11,882	10,128
	<u>14,133</u>	<u>11,921</u>

*Notes to the consolidated financial statements
for the year ended 31 December 2001*

24 Finance leases

The obligations payable under finance leases are as follows:

	2001 £000	2000 £000
Within 1 year	71	199
Within 2 to 5 years	-	-
	<u>71</u>	<u>199</u>
Less: future finance charges	-	(21)
	<u>71</u>	<u>178</u>

25 Consolidated - Accruals and deferred income

	2001 £000	2000 £000
Deferred reinsurance commissions	2,511	1,327
Other accruals and deferred income	<u>3,917</u>	<u>7,400</u>
	<u>6,428</u>	<u>8,727</u>

Company - Accruals and deferred income

	2001 £000	2000 £000
Deferred reinsurance commissions	2,511	1,327
Other accruals and deferred income	<u>3,555</u>	<u>7,141</u>
	<u>6,066</u>	<u>8,468</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2001**

26 Pensions

The group operates four pension schemes covering substantially all of its employees in all branches. With the exception of the scheme operated in France, which is an industry-wide scheme designed to supplement the social security system, the schemes are of a "defined benefit" nature and the assets are held in separate trustee administered funds.

The total pension cost for the group and company was £1,694,000 (2000: £1,507,000). The pension cost relating to the U.K. scheme is assessed in accordance with the advice of a qualified actuary using the projected benefit method. The latest actuarial assessment of the scheme was as at 1 January 1999. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments, the rates of increase in salaries and the rates of increases to pensions in payment. It was assumed that:

	UK	Germany	Australia
Rate of return on investments	7.0%	6.0%	4.6%
Increase in salaries	5.5%	2.8%	4.7%
Increases to pensions in payment	2.5%	2.8%	N/A

At the date of the latest actuarial valuation the market value of the assets of the UK scheme was £14,876,000 of which 96.2% was held in equities with the balance held in bonds. The past service liability was £12,953,000. The actuarial value of the assets was sufficient to cover 90 % of the benefits that had accrued to members, after allowing for expected future increases in earnings.

The market value of the assets at December 2001 of the Australian pension scheme was £2,275,000 of which 61% was held in equities, 10% in property, 23% in bonds and 6% in cash. The projected liability was £1,962,000. For Germany, the market value of the assets was £3,284,000 and represents an insurance contract purchased to cover the liquidation valuation of the scheme. The projected liability was £4,079,000.

27 Capital Commitments

- (i) The Group has no capital expenditure contracted for but not provided.
- (ii) The company has the following annual commitments under non-cancellable operating leases:

	2001		2000	
	Buildings £000	Other £000	Buildings £000	Other £000
Operating leases which expire:				
Within 1 year	234	58	202	354
Within 2 to 5 years	734	356	545	298
More than 5 years	1,723	-	1,736	-
	<u>2,691</u>	<u>414</u>	<u>2,483</u>	<u>652</u>