

Consolidated cash flow statement

For the year ended 31 December 2004

	Notes	2004		2003	
		£000	£000	£000	£000
Net cash inflow from operating activities	27		157,517		96,229
Returns on investments and servicing of finance					
Interest received		3,348		1,166	
Interest paid		(2,418)		(4,120)	
			930		(2,954)
Taxation					
UK Corporation tax paid			(15,060)		(10,428)
Capital expenditure					
Purchases of fixed assets		(1,394)		(2,921)	
Sales of fixed assets		15		20	
			(1,379)		(2,901)
Equity dividends paid			(51,996)		-
Financing					
Issues of ordinary shares		-		-	
Expenses related to share issue		(2,354)		-	
Repayment of loan capital		(2,333)		(12,333)	
Net movement in finance lease capital		(1,509)		32	
			(6,196)		(12,301)
			83,816		67,645
Cash flows were invested as follows:					
Increase in cash			18,536		7,079
Debt and other fixed income securities			65,280		60,566
			83,816		67,645

Notes to the financial statements for the year ended 31 December 2004

1. Basis of preparation

The Group financial statements, which consolidate the financial statements of the Company and its wholly owned subsidiary undertakings, have been prepared in accordance with the provisions of Section 255A of, and Schedule 9A to, the Companies Act 1985. The balance sheet of the parent Company is prepared in accordance with the provisions of Section 226 of, and Schedule 4 to, the Companies Act 1985.

The financial statements have also been prepared in accordance with applicable accounting standards and comply with the Statement of Recommended Practice ("SORP") issued by the Association of British Insurers as revised in November 2003.

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent Company is not presented.

2. Accounting policies

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

a) Basis of accounting for general insurance business

General insurance business is accounted for on an annual basis.

b) Premiums

General insurance business written premiums comprise the premiums on contracts entered into during the year, which incept during the current financial year. Premiums are disclosed gross of commission payable to intermediaries and exclude taxes and levies based on premiums.

The provision for unearned premiums comprises the proportion of gross premiums written which, it is estimated, will be earned in the following or subsequent financial years. It is computed separately for each insurance contract using the daily pro-rata method.

c) Claims

Claims incurred in respect of general business consist of claims and claims handling expenses paid during the period together with the movement in the provision of outstanding claims.

The provision for claims outstanding comprises provisions for the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not. Anticipated reinsurance recoveries are disclosed separately as assets.

Whilst the directors consider that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided.

Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made and disclosed separately if material. The methods used, and the estimates made, are reviewed regularly.

d) Acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts. Deferred acquisition costs represent the proportion of acquisition costs incurred that corresponds to the unearned premiums provision at the balance sheet date.