PHARMACY MUTUAL INSURANCE COMPANY LIMITED

Annual Report & Accounts

for the year ended 31 December 2006

Company Registration Number 184646

Chairman's Statement

The Company has again performed well in 2006 mainly due to a further strengthening of the equities market You will remember that last year we reported to you that we were seeking to come out of our relationship with NFU Mutual (NFUM) In our determination to ensure that the Company fulfils its ambition and to drive the business forwards we have placed our quota share reinsurance business with Fortis Insurance Limited and customer service and administration with Heath Lambert Insurance Limited The transition was started on 1st January 2007 and I am delighted to announce that it is progressing well with few teething problems

Fortis, Heath Lambert and Pharmacy Mutual Insurance (PMI) are working together to ensure that we maximise our potential for increasing our business organically and to look at other affinity markets where we might develop and drive new business through the Company

Over the past year we have had a number of meetings with the National Pharmacy Association (NPA) and it has emerged that the NPA has put in a bid to purchase the renewal rights of PMI We are now considering their offer and will advise the members of any impending announcements Rest assured the PMI board has, is and always will be looking after the interests of its members and to that end will endeavour to look at the proposition in such manner

It was with great sadness that I accepted John D'Arcy's resignation as Chief Executive some weeks ago John has decided to move on into the world of retail pharmacy and we wish him all the very best in his new endeavours I would personally like to thank John for his tireless efforts in steering and developing the business over the past few years Years that have seen the business go from strength to strength under his guidance In view of the many changes that are affecting the business at present, as mentioned above, I have, along with the board, decided to act promptly in seeking a replacement for John and have appointed an interim Chief Executive, Michael Lamb, to steer us through this changing times I am sure that you will all join me in congratulating Michael in his appointment and to wish him every success in the role

Finally I would like to thank NFUM for their help and assistance over the many years that we have worked together and of course the entire team at the PMI, both fellow directors and the staff of the Company, for what has been a challenging year Also I am grateful to our new partners Heath Lambert and Fortis, for all their hard work during the year, and look forward to 2007 and beyond with renewed confidence

Rajesh Patel
Chairman

30 April 2007

Chief Executive's Review

Pharmacy Mutual Insurance (PMI) had another good year in 2006 with a profit of £227k on the technical account (2005 £1 1m) and the overall pre-tax profit was £4 7m (2005 £6 6m) when investment gains and income are included This result must however be considered in the context of considerable expenditure and time on the tender and transfer of the outsourced business from NFU Mutual to Fortis Insurance and Heath Lambert Insurance

PMI's performance needs to be further considered against tough trading conditions The general insurance market is very competitive with the emergence of a large number of internet and retail providers who in a relatively soft market are offering very competitive rates Premium income has also been affected by the continued erosion of the independent pharmacy market seeing a reduction in the number of Pharmacover policies This has been in part offset by the conversion of these policies to property owner policies where vendors have retained the premises freeholds

The claims experience this year has increased by 18%, with an increase in income of 6%, and with the expenditure on the outsourcing changes, this has resulted in a worse than expected technical account during the year

This level of growth is not satisfactory and the Company needs to step up its efforts to grow the business and to enhance its offering to members As part of this PMI took the decision to end its quota share reinsurance contract with NFU Mutual and transfer the risk and administration to new outsource partners, Heath Lambert and Fortis The new providers share PMI's appetite for growth and it is anticipated that the new arrangements will lead to an increase in turnover, profitability and enhanced services

As reported in the Chairman's statement, PMI has been approached by the National Pharmacy Association (NPA) with a view to its buying the renewal rights of the Company In keeping with the ethos of mutuality on which PMI is run and the request for PMI to look at the best way of delivering benefits for PMI's members, the PMI directors believe that the price offered is good value for its members In saying this account has been taken of the special relationship between the NPA and PMI and the fact that other than governance and compliance many functions of PMI are already sub-contracted to NPA The sale of the renewal rights would afford PMI the opportunity to re-distribute its substantial assets to members and it is against this background that it is working towards selling the renewal rights to NPA Any sale shall be subject to approval by the members of PMI

After seven years as Chief Executive of PMI I believe the time is right for a move to pastures new I would like to thank my fellow PMI Directors for their support during my time at PMI and all my colleagues – past and present – on the PMI team for all of their help and support during that time

John D'Arcy
Chief Executive

30 April 2007

Report of Directors

The Directors have pleasure in presenting their annual report with the auditors' report and the financial statements for the year ended 31 December 2006

Status and Particulars
The Pharmacy Mutual Insurance Company Ltd is a mutual company limited by guarantee not having any share capital The principal activities of the Company during the year were the insurance of pharmacists' homes and vehicles and community pharmacies against loss or damage to property, pecuniary loss and liability

Report of the Year
Business Review and Strategy

Following the trend over the last few years it is pleasing to note another strong profit for the year of £4,674,255 The profit for was largely due to another year of strong performance in the stock market, which led to surplus of nearly £4 5m at the non-technical level However, profit at the operating technical level fell from £1,145,535 to £226,719 due to worsening claims experience compared to the previous year, a lower level of other technical income and higher operating expenses due to migration of the Company's business from NFU to Heath Lambert and Fortis Insurance Following our new partnership with these companies it is anticipated that operating technical profits will improve significantly in the coming years

Future Outlook

The Company's new partnership with Heath Lambert has created an improved sales and distribution platform which is expected to increase policy count, gross written premium and return

Principle Risks and Uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks The key business risks and uncertainties affecting the Company are -

- *Insurance Risk*
  This arises from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities It is the risk of the adverse deviations from the cash flows assumed when pricing or reserving for insurance contracts As 100% of PMI's business is reinsured with Fortis, a large insurer, insurance risk is not a major issue for the Company

- *Credit Risk*
  This is the risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion The Company's exposure to credit risk results from financial transactions with counterparties including reinsurers, fund managers holding investment portfolios, and short term deposit holders As all the counterparties have strong credit ratings the Directors do not identify any major credit risk in the Company

- *Liquidity Risk*
  This represents the potential that a firm may be unable to meet its obligations as they fall due as a consequence of having a timing mismatch Liquidity risk is not an issue for the Company which holds significant cash and short term deposits and due to the fact that its claims are 100% reinsured

- *Market Risk*
  Market risk encompasses an adverse movement in the value of the assets as a consequence of market movements, such as with interest rates, equity prices, etc, which is not matched by a corresponding movement in the value of liabilities In the Company's Individual Capital Assessment ('ICA') various stress and scenario tests were performed on investments, interest rates and levels of income and the models showed that the Company was able to withstand a variety of adverse scenarios

- *Operational Risk*
  Operational risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events As part of the Company's operational risk review the Company has examined its administration, compliance, event, fraud, governance, strategic and technological risks These have been reviewed in detail as part of the ICA and no major risks which cannot be overcome were identified

It should be noted that the profile of these risks will change should the Company distribute surplus capital to its members However it is anticipated that the Company's closer affiliation with the National Pharmacy Association ('NPA'), should the Company be purchased by the NPA, will in the long run create a strong and stable organisation capable of withstanding all aspects of business risks

Report of Directors (continued)

Key Performance Indicators ('KPIs')
Given the relatively straightforward nature of the business, the Company's Directors are of the opinion that analysis using only a limited selection of KPI's is adequate for an understanding of the development and performance of the business In addition the Company carefully monitors its claims ratio and solvency on a regular basis

Directors
A list of directors appears on page 5 and details of director's loans are shown in Note 10

Auditors
A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting

Statement of Directors' Responsibilities
Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period The Directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business

The Directors confirm that suitable accounting policies have been used and applied consistently They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2006 and that applicable accounting standards have been followed

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

As far as the Directors are aware there is no information relevant to the audit of which the Company's auditors are unaware and the Directors have taken all steps that they ought to have taken as Directors in order to make themselves aware of any such relevant information and to establish that the Company's auditors are aware of that information

By Order of the Board

R J C Maw
Company Secretary

24 May 2007

Board of Directors

Gerald M Alexander, BSc, MRPharmS, Non Executive

John G P D'Arcy LLB, BPharm, MRPharmS, Chief Executive – resigned 30 April 2007

Wally F Dove, BPharm, FRPharmS, Non Executive

Ian J Johnstone, BSc, MRPharmS, Non Executive

Michael Major, FInstD, Non Executive

Richard J C Maw, BSc, MBA, ACA, Company Secretary & Finance Director

Rajesh Patel, BSc, MRPharmS, Non Executive Chairman

Umesh B Patel, BSc, MRPharmS, Non Executive

Ashok Soni, BSc, MRPharmS, Non Executive

Alan Webster, MSc, FCIBS, Non Executive

Glenn F Hirchfield, Insurance Director – resigned 26 July 2006

Officers

Michael Lamb, ACII, Chief Executive – appointed 17 April 2007

Independent Auditor's Report to the Members of Pharmacy Mutual Insurance Company Limited (By Guarantee)

We have audited the financial statements of Pharmacy Mutual Insurance Company Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes These financial statements have been prepared under the accounting policies set out therein

Respective responsibilities of directors and auditors
The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 other transactions is not disclosed

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements This other information comprises only the Directors' Report, the Chairman's Statement and Chief Executive's Review We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of its profit and cash flows for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
10 Bricket Road
St Albans

23 July ~~24 May~~ 2007

PHARMACY MUTUAL INSURANCE COMPANY LIMITED

PROFIT AND LOSS ACCOUNT
for the Year Ended 31 December 2006

Technical Account – General Business

	Note	2006		2005	
		£	£	£	£
Earned premiums, net of reinsurance					
Gross premiums written	2		9,030,389		8,554,769
Outward reinsurance premiums			(9,030,389)		(8,554,769)
Net premiums written			–		–
Change in the gross provision for unearned premiums		(270,012)		2,039	
Change in the provision for unearned premiums, reinsurers' share		270,012		(2,039)	
			–		–
Change in the gross provision for free renewals	18	(424,207)		(133,594)	
Change in the provision for free renewals, reinsurers' share		424,207		133,594	
			–		–
Earned premiums, net of reinsurance	3		–		–
Allocated investment return transferred from the non-technical account			18,365		26,383
Other technical income, net of reinsurance			1,152,063		1,585,656
Total technical income			1,170,428		1,612,039
Claims incurred, net of reinsurance					
Claims paid					
– gross amount			4,086,424		4,021,891
– reinsurers' share			(4,062,454)		(4,002,612)
			23,970		19,279
Change in the provision for claims					
– gross amount			701,762		39,974
– reinsurers' share			(722,898)		(198,678)
			(21,136)		(158,704)
Claims incurred, net of reinsurance	4		2,834		(139,425)
Net operating expenses	5		940,875		605,929
Total technical charges			943,709		466,504
Balance on the technical account for general business			226,719		1,145,535

All the amounts above are in respect of continuing operations

The accounting policies and notes on pages 12 to 22 form an integral part of these financial statements

PHARMACY MUTUAL INSURANCE COMPANY LIMITED

PROFIT AND LOSS ACCOUNT
for the Year Ended 31 December 2006

Non-Technical Account

	Notes	2006 £	2005 £
Balance on the general business technical account		226,719	1,145,535
Investment income	8	2,261,141	3,771,258
Unrealised gain on investments		2,316,516	1,792,887
Investment expenses and charges		(111,756)	(92,825)
Allocated investment return transferred to the technical account		(18,365)	(26,383)
Profit on ordinary activities before tax		4,674,255	6,590,472
Tax on profit on ordinary activities	9	(1,163,477)	(442,082)
Retained profit for the financial year	13	3,510,778	6,148,390

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the Year Ended 31 December 2006

		2006 £	2005 £
Profit for the financial year		3,510,778	6,148,390
Actuarial gain/(loss) recognised in the pension scheme	20	12,000	(41,000)
Total recognised gain relating to the year		3,522,778	6,107,390
Prior year adjustment – FRS 17		–	(404,000)
Total gains recognised since last annual report		3,522,778	5,703,390

There are no material differences between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents

All of the amounts above are in respect of continuing operations

The accounting policies and notes on pages 12 to 22 form an integral part of these financial statements

PHARMACY MUTUAL INSURANCE COMPANY LIMITED

BALANCE SHEET
at 31 December 2006

	Notes	2006 £	2005 £
Assets			
Investments			
Land and buildings	10	2,000,000	1,855,000
Other financial investments	10	37,610,026	36,116,418
		39,610,026	37,971,418
Reinsurers' share of technical provisions			
Provisions for unearned premiums	3	4,236,682	3,966,670
Claims outstanding	14	5,059,848	4,336,950
Other Technical Provisions – Provision for free renewals	18	2,635,249	2,211,042
		11,931,779	10,514,662
Debtors			
Debtors arising out of direct insurance operations		559,114	830,984
Other debtors	11	25,146	14,528
		584,260	845,512
Other assets			
Cash at bank and in hand		8,786,671	5,911,831
Prepayments and accrued income			
Accrued interest		72,815	48,422
Total Assets		60,985,551	55,291,845

The accounting policies and notes on pages 12 to 22 form an integral part of these financial statements

PHARMACY MUTUAL INSURANCE COMPANY LIMITED

BALANCE SHEET
at 31 December 2006

	Notes	2006 £	2005 £
Liabilities			
Reserves			
General reserves	12	200,000	200,000
Profit and loss account	12	46,434,261	42,911,483
		46,634,261	43,111,483
Technical provisions			
Provisions for unearned premiums	3	4,236,682	3,966,670
Claims outstanding	14	5,218,757	4,516,995
Other technical provisions – provision for free renewals	18	2,635,249	2,211,042
		12,090,688	10,694,707
		58,724,949	53,806,190
Provision for other risks and charges	16	1,087,846	201,168
Creditors			
Arising out of direct insurance operations		23,187	16,694
Other creditors including taxation and social security	15	569,070	564,796
		592,257	581,490
Accruals and deferred income		206,499	204,997
Total Liabilities excluding pension liability		60,611,551	54,793,845
Pension liability	20	374,000	498,000
Total Liabilities		60,985,551	55,291,845

The accounting policies and notes on pages 12 to 22 form an integral part of these financial statements

Approved at a meeting of the Board of Directors on 24 May 2007 and signed on its behalf

R PATEL
Chairman

R J C MAW
Director

PHARMACY MUTUAL INSURANCE COMPANY LIMITED

CASH FLOW STATEMENT
for the Year Ended 31 December 2006

Cash Flow Statement

	Notes	2006 £	2006 £	2005 £	2005 £
Net cash inflow from operating activities	17(1)		1,806,434		2,031,777
Taxation paid			(192,671)		(225,864)
Net cash inflow			1,613,763		1,805,913
Cash flows were invested/applied as follows					
Increase/(decrease) in cash at bank			2,874,840		(2,848,966)
Net portfolio investments					
Purchase of ordinary shares		9,162,223		13,537,232	
Sale of ordinary shares		(8,501,632)		(11,557,758)	
			660,591		1,979,474
Purchase of fixed income securities		500,000		–	
Sale of fixed income securities		(2,171,737)		(209,400)	
			(1,671,737)		(209,400)
(Decrease)/increase in short-term deposits			(249,931)		2,884,805
Net investment of cash flows			1,613,763		1,805,913

The accounting policies and notes on pages 12 to 22 form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006

1 ACCOUNTING POLICIES

Basis of Presentation
The financial statements are prepared on the basis of the accounting policies set out below, and comply with the special provisions of section 255A of, and Schedule 9A to, the Companies Act 1985, and with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers (the 'ABI SORP') dated December 2005

The financial statements have been prepared in accordance with applicable accounting standards Compliance with Statement of Standard Accounting Practice ('SSAP') 19, 'Accounting for Investment Properties', requires departure from the requirements of the Companies Act 1985 relating to depreciation and an explanation of the departure is given in the accounting policy relating to investments below

Basis of Accounting
The annual basis of accounting has been applied to all classes of business

Premiums
Gross written premiums comprise the total premiums incepted during the year and exclude insurance premium tax The amount of this tax due by the Company to the Customs and Excise at the year end has been included in the balance sheet as a liability under the heading 'Other creditors including taxation and social security'

Unearned Premiums
These represent that portion of the premiums written up to the accounting date which is attributable to subsequent periods Provision for these unearned premiums is made on the 24ths method

Free Renewals
Free renewals are granted to policyholders on qualifying policies who make no claims for five consecutive years The expected cost of future free renewals is calculated annually and provision made for this cost by way of transfer to the provision for free renewals

Claims
Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years Claims outstanding represent the ultimate cost of settling all claims (including direct and indirect claims settlement costs) arising from events which have occurred up to the balance sheet date, including provision for claims incurred but not reported, less any amounts paid in respect of those claims The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures However, given uncertainty in establishing claims provisions, it is likely that the final outcome may prove to be different from the original liability established

The estimation of claims incurred but not reported ('IBNR') is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available Claims IBNR may often not be apparent to the insured until many years after the event giving rise to the claims In calculating the estimated cost of unpaid claims the Company uses a variety of estimation techniques, generally based upon analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience Allowance is made, however, for changes or uncertainties which may create distortions or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims

Acquisition Costs
Acquisition costs are expensed in the year that they are incurred, as the Directors deem that any deferral would not materially affect the results for the year

Investment Income
Investment income from quoted investments and mortgages is accounted for when received Income from short-term deposits is accounted for on an accruals basis Investment income includes realised gains and losses on disposal of investments

Dividends are recorded on the date that they are received

Realised gains and losses are calculated as the difference between net sales proceeds and acquisition costs

An allocation of investment income from the non-technical account is made on the basis of the relationship between funds used for technical and non-technical business

1 ACCOUNTING POLICIES (continued)

Investments
In accordance with SSAP 19, no depreciation is provided in respect of freehold investment properties The requirement of the Companies Act 1985 is to depreciate all properties This requirement conflicts with the generally accepted accounting principle set out in SSAP 19 The Directors consider that, as these properties are held for investment, to depreciate them would not give a true and fair view, and that it is necessary to adopt SSAP 19 in order to give a true and fair view

Listed investments are included in the balance sheet at mid-market value, mortgages at cost, and short-term deposits at actual value Land and buildings were revalued in December 2006 on an open market basis by Perry Holt and Company, a firm of independent chartered surveyors

Unrealised gains and losses are taken to the profit and loss account

Pension Costs
The Company currently contributes to a defined benefit pension scheme The pension liability recognised in the balance sheet is the value of the scheme's liabilities less the present value of the scheme's assets

The pension cost for the scheme is analysed between current service cost, past service cost and net return on pension scheme Current service cost is the actuarially calculated present value of the benefits earned by the active employees in each period Past service costs, relating to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits, are recognised in the profit and loss account on a straight-line basis over the period in which the increase in benefits vest Net expected return on the pension asset comprises the expected return on the pension scheme assets less interest on scheme liabilities

The actuarial gains and losses which arise from a valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are taken to the statement of total recognised gains and losses for the period

Foreign Currencies
Monetary assets and liabilities in foreign currencies are translated to sterling at the rates of exchange ruling at the end of the year Revenue transactions are translated at the appropriate rates during the year, gains/losses on translation being taken to the profit and loss account

Reinsurance
Reinsured premiums are accounted for on an accruals basis The reinsured element of claims is accounted for in line with the accounting of the related claim and having due regard to collectibility An assessment is also made of the recoverability of reinsurance recoveries having regard to market data on the financial strength of each of the reinsurance companies

Profit Share
The Company participates in a profit share with NFU Mutual Ltd The profit share is accounted for on an accruals basis, based on the results of the joint business accounts according to a pre-determined formula

Commission Income
Commission income is based on a percentage of gross written premiums and accounted for on an accruals basis and is recorded as other technical income

Deferred Tax
Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred at the balance sheet date Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date Deferred tax assets and liabilities recognised have not been discounted

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006 (continued)

2 SEGMENTAL ANALYSIS

(1) Gross premiums written and gross premiums earned

	Gross premiums written		Gross premiums earned	
	2006	2005	2006	2005
	£	£	£	£
Direct insurance				
Commercial	1,246,791	986,921	833,386	965,902
Package	3,229,333	3,213,939	3,204,477	3,170,811
Personal	2,640,870	2,438,460	2,418,288	2,371,030
Motor	1,913,395	1,915,449	1,880,019	1,915,471
	9,030,389	8,554,769	8,336,170	8,423,214

Gross premiums earned are stated after the movement in the Provision for Free Renewals

(2) Gross claims incurred and gross operating expenses

	Gross claims incurred		Gross operating expenses	
	2006	2005	2006	2005
	£	£	£	£
Direct insurance				
Commercial	257,418	226,950	51,701	37,257
Package	1,632,591	1,269,277	327,894	208,374
Personal	1,576,644	1,571,852	316,657	258,048
Motor	1,321,533	993,786	265,420	163,148
	4,788,186	4,061,865	961,672	666,827

3. EARNED PREMIUMS NET OF REINSURANCE

	Gross	Reinsurance	Net
	£	£	£
2006			
Gross premiums written	9,030,389	(9,030,389)	-
Unearned premiums carried forward	(4,236,682)	4,236,682	-
Unearned premiums brought forward	3,966,670	(3,966,670)	-
Free renewals reserve carried forward	(2,635,249)	2,635,249	-
Free renewals reserve brought forward	2,211,042	(2,211,042)	-
Premiums earned	8,336,170	(8,336,170)	-
2005			
Gross premiums written	8,554,769	(8,554,769)	-
Unearned premiums carried forward	(3,966,670)	3,966,670	-
Unearned premiums brought forward	3,968,709	(3,968,709)	-
Free renewals reserve carried forward	(2,211,042)	2,211,042	-
Free renewals reserve brought forward	2,077,448	(2,077,448)	-
Premiums earned	8,423,214	(8,423,214)	-

Net premiums earned are nil (2005 £nil) as the Company reinsures 100% of its business

4 CLAIMS INCURRED NET OF REINSURANCE

	Gross	Reinsurance	Net
	£	£	£
2006			
Claims paid	4,065,627	(4,062,454)	3,173
Claims handling expenses paid	20,797	–	20,797
	4,086,424	(4,062,454)	23,970
Outstanding claims carried forward	5,218,757	(5,059,848)	158,909
Outstanding claims brought forward	(4,516,995)	4,336,950	(180,045)
(Decrease)/increase	701,762	(722,898)	(21,136)
Claims incurred	4,788,186	(4,785,352)	2,834
2005			
Claims paid	3,994,993	(4,002,612)	(7,619)
Claims handling expenses paid	26,898	–	26,898
	4,021,891	(4,002,612)	19,279
Outstanding claims carried forward	4,516,995	(4,336,950)	180,045
Outstanding claims brought forward	(4,477,021)	4,138,272	(338,749)
(Decrease)/increase	39,974	(198,678)	(158,704)
Claims incurred	4,061,865	(4,201,290)	(139,425)

5 NET OPERATING EXPENSES

	2006	2005
	£	£
Acquisition costs	13,038	2,967
Administration expenses		
Auditors' remuneration for audit services	14,900	13,530
Auditors' remuneration for non audit services	10,884	10,804
Tender management	235,613	–
Management and administration services (Note 19)	323,587	192,408
Other	342,853	386,220
Gross operating expenses	940,875	605,929

6 STAFF COSTS

In the previous year all staff were employed by National Pharmacy Association Limited and costs were charged to the Company by a management recharge as follows

	2006	2005
	£	£
Wages and salaries	–	118,392
Social security costs	–	13,358
Other pension costs	120,470	62,293
	120,470	194,043

Pension costs relate to payments to the pension scheme for the past service costs of former employees

The average monthly number of employees during the year was as follows

	2006	2005
Management and administration	Nil	1
	Nil	1

7 DIRECTORS' EMOLUMENTS

	2006 £	2005 £
Aggregate emoluments	–	50,500
Directors' fees	84,000	46,916
	84,000	97,416

No director is a member of the money purchase pension scheme (2005 Nil)

8 INVESTMENT INCOME

	2006 £	2005 £
Income from land and buildings	102,693	100,050
Income from listed investments	1,047,073	942,477
Income from other investments	528,207	444,577
	1,677,973	1,487,104
Realised gains	583,168	2,284,154
Net Investment gains	2,261,141	3,771,258

9 TAXATION

	2006 £	2005 £
The taxation charge for the period comprises		
Current Tax		
UK corporation tax on profit of the period	324,947	240,914
Adjustments in respect of previous periods	(48,148)	–
Total current tax	276,799	240,914
Deferred Tax – see Note 21	886,678	201,168
	1,163,477	442,082
Factors affecting the tax credit for the period		
Profit on ordinary activities before tax	4,674,255	6,590,472
Profit on ordinary activities multiplied by standard rate of corporation tax in UK of 30%	1,402,276	1,977,142
Effects of		
Income not taxable	(265,881)	(571,706)
Unrealised gains not currently taxable	(636,498)	(1,164,522)
Adjustments in respect of previous periods corporation tax	(48,148)	–
Capital gains covered by capital losses brought forward	(174,950)	–
Current tax charge for the period	276,799	240,914

10 INVESTMENTS

(1) Freehold Land and Buildings

	Current value		Historical cost	
	2006	2005	2006	2005
	£	£	£	£
Freehold land and buildings	2,000,000	1,855,000	2,235,000	2,235,000

Land and buildings were revalued in December 2006 on an open market basis by Perry Holt and Company, a firm of independent chartered surveyors

	Current value Freehold Land and Buildings	Historical cost Freehold Land and Buildings
	£	£
As at 1 January 2006	1,855,000	2,235,000
Additions	–	–
Disposals	–	–
Revaluation	145,000	–
As at 31 December 2006	2,000,000	2,235,000

(2) Other Financial Investments

	Current value		Historical cost	
	2006	2005	2006	2005
	£	£	£	£
Other financial investments				
Shares and other variable yield securities and authorised unit trusts	31,041,598	27,488,099	25,393,123	23,517,051
Government fixed interest	2,144,461	3,954,421	2,029,599	4,018,578
Loans secured by mortgages	378,000	378,000	378,000	378,000
Short-term deposits	4,045,967	4,295,898	4,045,967	4,295,898
Total investments	37,610,026	36,116,418	31,846,689	32,209,527

Of the loans secured by mortgages £168,000 (2005 £168,000) has been advanced to John D'Arcy a director of the Company Interest of £6,720 (2005 £7,920) was chargeable for the year There was no unpaid interest at the year end This loan has been repaid in full since the end of the financial year

	Listed on the UK Stock Exchange		Overseas Listed Investments	
	2006	2005	2006	2005
	£	£	£	£
Shares and other variable yield securities and authorised unit trusts	23,106,016	19,546,163	7,930,582	7,936,936
Government fixed interest	2,144,461	3,954,421	–	–
	25,250,477	23,500,584	7,930,582	7,936,936

11 OTHER DEBTORS

	2006	2005
	£	£
Other debtors	7,555	11,141
Amounts due from affiliate companies	17,591	3,387
	25,146	14,528

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006 (continued)

12 PROFIT AND LOSS ACCOUNT AND GENERAL RESERVES

	General Reserve £	Profit and Loss Reserve £
At 1 January 2006	200,000	42,911,483
Retained profit for the year	–	3,510,778
Actuarial gain on pension scheme	–	12,000
As at 31 December 2006	200,000	46,434,261
Pension liability	–	374,000
Profit and loss reserve excluding pension liability	200,000	46,808,261

13 RECONCILIATION OF PROFIT & LOSS ACCOUNT AND GENERAL RESERVES

	2006 £	2005 £
Profit for year	3,510,778	6,148,390
Actuarial gain on pension scheme	12,000	(41,000)
Net additions to reserves	3,522,778	6,107,390
Opening reserves	43,111,483	37,004,093
Closing profit and loss account and general reserves	46,634,261	43,111,483

14 CLAIMS OUTSTANDING

	Gross £	Reinsurance £	Net £
2006			
Notified outstanding claims	4,758,757	(4,649,848)	108,909
Provision for claims incurred but not reported	460,000	(410,000)	50,000
	5,218,757	(5,059,848)	158,909
2005			
Notified outstanding claims	3,966,995	(3,836,950)	130,045
Provision for claims incurred but not reported	550,000	(500,000)	50,000
	4,516,995	(4,336,950)	180,045

15 CREDITORS

	2006 £	2005 £
Corporation tax	324,947	240,819
Amounts owed to affiliate companies	239,123	317,833
Other creditors	5,000	6,144
	569,070	564,796

16 PROVISIONS FOR OTHER RISKS AND CHARGES – DEFERRED TAXATION

	£
At 1 January 2006	201,168
Profit and Loss account charge	886,678
At 31 December 2006	1,087,846

17 NOTES TO THE CASH FLOW STATEMENT

(1) Reconciliation of Net Cash Inflow from Operating Activities

	2006 £	2005 £
Profit before tax on ordinary activities	4,674,255	6,590,472
Realised and unrealised (gains) on investments	(2,899,684)	(4,077,041)
Increase in technical provisions	1,395,981	171,529
(Increase) in insurance and reinsurance debtors	(1,417,117)	(330,233)
Difference in pension charge and cash contributions	12,000	(41,000)
Decrease/(increase) in debtors	261,252	(566,106)
(Increase) in prepayments and accrued income	(24,393)	–
Increase in direct insurance creditors	6,492	450
Increase in accruals and deferred income	1,502	32,129
(Decrease)/increase in other creditors	(79,854)	221,577
(Decrease) in pension liability	(124,000)	–
Decrease in loans secured by mortgages	–	30,000
Net cash inflow from operating activities	1,806,434	2,031,777

(2) Portfolio Investments

Movement in portfolio investments net of financing	2006 £	2005 £
Increase/(Decrease) in cash holdings	2,874,840	(2,848,966)
Net cash flow from portfolio investments	(1,261,077)	4,654,879
Movement arising from cash flows	1,613,763	1,805,913
Changes in market value	2,754,685	3,872,040
Total movement in portfolio investments net of financing	4,368,448	5,677,953
Portfolio investments net of financing at 1 January	41,650,249	35,972,296
Portfolio investments net of financing at 31 December	46,018,697	41,650,249

(3) Movement in cash, portfolio investments and financing

	As at 1 January 2006 £	Cash Flow £	Changes to market value £	As at 31 December 2006 £
Cash in hand and at bank	5,911,831	2,874,840	–	8,786,671
Short-term deposits	4,295,898	(249,931)	–	4,045,967
Ordinary shares	27,488,099	660,590	2,892,909	31,041,598
Fixed income securities	3,954,421	(1,671,736)	(138,224)	2,144,461
	41,650,249	1,613,763	2,754,685	46,018,697

18 PROVISION FOR FREE RENEWALS

	Total £
Balance brought forward at 1 January 2006	2,211,042
Transfer from Technical Account	424,207
Balance carried forward at 31 December 2006	2,635,249

19 RELATED PARTY TRANSACTIONS

Management and other administration services of £323,587 (2005 £192,408) were charged by the National Pharmacy Association Limited (NPA), a company under common management for the year

At the year end the balance owed by the Company to the NPA was £199,491 (2005 £270,312)

As indicated in Note 10, a loan secured by mortgage of £168,000 (2005 £168,000) has been advanced to John D'Arcy, a Director of the Company This mortgage has been repaid in full since the end of the financial year

20 PENSION SCHEME COSTS

(1) Defined Benefit Scheme

The Company is a member of a group pension scheme operated by the National Pharmacy Association Limited The scheme is of the defined benefit type providing benefits similar to those based on final pensionable pay The assets of the scheme are held separately from those of the member companies, being invested with fund managers The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method The pension liability recognised in the balance sheet is the value of the scheme's liabilities less the present value of the scheme's assets

The pension charge for the year relating to regular cost was nil (2005 £6,523) However, £120,470 (2005 £55,770) has been contributed to the Scheme as a contribution to the current deficit The contributions for the year are all detailed in the statutory accounts

The actuary is not an officer of the Company

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation carried out at 31 January 2006 and updated to 31 December 2006 by a qualified independent actuary The major assumptions used by the actuary were (in nominal terms)

	31 December 2006	31 December 2005	31 December 2004
Rate of increase in salaries	4 25%	4 40%	4 30%
Rate of increase of pensions in payment	3 00%	3 00%	3 00%
Rate of increase of pensions in deferment	2 80%	2 85%	2 75%
Discount rate	5 25%	4 75%	5 25%
Inflation assumption	2 80%	2 85%	2 75%

The assets in the scheme, as related to the Company, and the expected rate of return were

	At 31 December 2006	Scheme valuation at 31 December 2006 £	At 31 December 2005	Scheme valuation at 31 December 2005 £	At 31 December 2004	Share valuation at 31 December 2004 £
Equities	7 00%	872,000	6 75%	791,000	7 25%	656,000
Bonds, Cash and Insured Pensioners	5 25%	317,000	4 75%	206,000	5 25%	144,000
Property	7 00%	16,000	6 75%	14,000	7 25%	12,000
Total market value of assets		1,205,000		1,011,000		812,000
Actuarial value of liability		(1,579,000)		(1,509,000)		(1,310,000)
Total deficit in the scheme		(374,000)		(498,000)		(498,000)
Effect of surplus cap		–		–		–
Deficit in the scheme		(374,000)		(498,000)		(498,000)
Related deferred tax asset/(liability)		–		–		–
Net pension liability		(374,000)		(498,000)		(498,000)

20 PENSION SCHEME COSTS (continued)

	2006	2005
Analysis of the profit and loss account charge under FRS 17	£	£
Current service cost	–	9,000
Past service cost	5,000	–
Total operating charge	5,000	9,000
Analysis of net return on pension scheme under FRS 17		
Expected return on pension scheme assets	66,000	55,000
Interest on pension liabilities	(70,000)	(68,000)
Net return	(4,000)	(13,000)
Refund of unrecognised surplus	–	–
Other finance costs	(4,000)	(13,000)
Analysis of actuarial gains and losses		
Actual return less expected return on assets	41,000	137,000
Experience gains and losses on liabilities	38,000	–
Changes in assumptions	(67,000)	(178,000)
Actuarial gain/(loss)	12,000	(41,000)
Adjustment due to surplus cap	–	–
Net gain/(loss)	12,000	(41,000)
Movement in surplus during the year		
Deficit in scheme at beginning of year	(498,000)	(498,000)
Movement in year		
Current service cost	–	(9,000)
Contributions	121,000	63,000
Past service costs	(5,000)	–
Other costs	(4,000)	(13,000)
Actuarial gain/(loss)	12,000	(41,000)
Deficit in scheme at end of year	(374,000)	(498,000)

The actuarial valuation at 31 December 2006 shows a decrease in the deficit from £498,000 to £374,000 Employer's contributions of £121,000 were paid

History of experience gains and losses	**2006**	**2005**	**2004**	**2003**	**2002**
Difference between expected and actual return on scheme assets					
Amount (£)	41,000	137,000	79,000	89,000	(142,000)
Percentage of scheme assets	3%	13%	10%	13%	(23%)
Experience gains and losses on scheme liabilities					
Amount (£)	38,000	–	–	–	–
Percentage	4%	–	–	–	–
Total amount recognised in statement of total recognised gains and losses					
Amount (£)	12,000	(41,000)	(29,000)	32,000	(273,000)
Percentage of scheme liabilities	(2%)	(3%)	(2%)	3%	(25%)

(2) **Defined Contribution Scheme**
The above referred to defined benefit pension scheme was closed to new members on 1 April 2000 when a new scheme arranged through Scottish Widows was made available The new NPA pension scheme is of the

20 PENSION SCHEME COSTS (continued)

defined contributions type which builds up a fund to provide a pension to the employee based on the total value of the fund on retirement The Company's obligations to the fund are limited to the contributions made and due The contributions are based on members' salaries with a contribution by the Company of 10% and by the member of 5% per annum

The scheme is not contracted out of the State Earning Related Pension Scheme

The pension charge for the year in respect of the new scheme was £nil (2005 £nil)

21 DEFERRED TAXATION

	2006	2005
	£	£
The deferred taxation liability represents		
Tax losses carried forward	(625,968)	(876,146)
Unrealised gains on investments	1,713,814	1,077,314
Provision for deferred tax	1,087,846	201,168
Provision at 1 January	201,168	-
Deferred tax credit in profit and loss account for the year	886,678	201,168
Provision (asset) at 31 December	1,087,846	201,168
Factors that may affect future charges		
Deferred taxation unprovided represents		
Tax losses carried forward	-	-
Unrealised gains/(losses) on investments	-	-
	-	-