Registered no 209606

Avon Insurance plc
Annual Report 2006

Board of Directors

Chairman
Sir Don Curry, C B E , F R Ag S

Vice-Chairman
I D Grant, C B E , F R Ag S.

Chief Executive
I S Geden, F C I I

R J Lucas BSc , M R I C S

W J M Schouten, M B.A.

Directors' Report

Principal Activities

The principal activity of the Company is the transaction of Personal Accident insurance business

Review of Business

On 1st October 2006 Avon Insurance reinsured all the remaining Broker and Intermediary business with its parent company, NFU Mutual Insurance Society Limited for a premium of £36m The claims run-off is now managed as part of the parent's outstanding claims and any estimate releases or shortfalls will be recognised by NFU Mutual

Avon Insurance continued to write Personal Accident insurance business throughout 2006, with gross written premium of £45 3m compared to £47 1m in 2005 A slight increase in lapse rates and higher cancellation rates on new business, have lead to the small fall in premium

During the year, the company made a profit before tax of £20 7m (2005 – £45 4m) and paid dividends of £18m (2005 – £8m) The movement on the profit and loss reserves was (£3 7m) (2005– £23 7m)

The company continues to maintain it's financial strength with a solvency ratio of 572% compared to 590% in 2005

The directors are satisfied with the performance of the company and following the reinsurance of the Broker and Intermediary business, the ongoing focus of the board will be on the performance and development of the Personal Accident business As such the focus will be to maintain strong relationships with our key business partners

Directors

Sir Don Curry C B E , F R Ag S
I S Geden, F C I I
I D Grant C B E , F R Ag S
R J Lucas M R I C S (appointed 22nd March 2006)
W J M Schouten, M B A
A Harris, M B A , F C I I (resigned 22nd March 2006)

J D Creechan, LL B (Hons), LL M Solicitor (Secretary)

In accordance with the Articles of Association, Sir Don Curry and I D Grant retire, and being eligible, offer themselves for re-election at the next AGM

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 as at the end of the financial year and of the profit for that period In preparing those financial statements the directors confirm -

- suitable accounting policies have been selected and applied consistently,
- judgements and estimates made are reasonable and prudent,
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- the financial statements are prepared on the going concern basis

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 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

The Directors confirm that, so far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware and that each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Corporate Governance

Corporate governance matters are dealt with at Group level and are reported in detail in the parent company's Annual Report

Management of insurance and financial risk

The Company issues contracts that transfer insurance risk or financial risk or both This section summarises these risks and the way the Group manages them

Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim By the very nature of an insurance contract, this risk is random and therefore unpredictable

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities This could occur because the frequency or severity of claims and benefits are greater than estimated Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be The Company has developed its insurance underwriting strategy to achieve a sufficiently large population of risks to reduce the variability of the expected outcome

Factors that aggravate insurance risk include lack of risk diversification in terms of class and amount of risk, and geographical location

General insurance contracts

Frequency and severity of claims

The frequency and severity of claims can be affected by several factors, such as the risk profile of the business, inflation, legal rulings, and weather events The Group manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling The underwriting strategy attempts to ensure that the underwritten risks are well controlled in terms of class and amount of risk, industry and geography

Underwriting limits are in place to enforce appropriate acceptance criteria As General Insurance contracts are generally issued on an annual basis, the Company has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of a fraudulent claim Insurance contracts also entitle the Company to pursue third parties for payment of some or all costs (i e subrogation) In the UK, legislation requires that the maximum loss under each motor contract is never lower than a prescribed amount All the Company motor insurance contracts offer unlimited third party insurance cover in compliance with such minimums

The reinsurance arrangements include risk excess and catastrophe coverage In addition to the overall Company reinsurance programme, individual business units are permitted to purchase additional reinsurance protection (facultative)

Financial Instruments

Financial risk management objectives

The Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and policyholder liabilities The key financial risk which the Company manages is that the proceeds from financial assets are not sufficient to fund the obligations arising from contracts with policyholders The most important components of this financial risk are interest rate risk and credit risk

The Company does not use hedge accounting

Interest rate risk

The Company monitors interest rate risk by modelling the effect of changes in interest rates, and bond yields on the assets and liabilities held on the Balance Sheet Where appropriate, assets will be held which react to changes in yields in the same way as the underlying liabilities – by purchasing bonds of an appropriate yield and term Where this is not appropriate, capital is held to ensure that by taking this mis-matched position, the Company is operating within the risk appetite set by the Board

The Company has a defined investment policy which sets out limits on the concentration of exposure to bonds in any one counterparty Group Investment Committee meetings are held quarterly At these, senior management, including investment managers, representing all Group companies meet to discuss investment return, mix and concentration across the Group

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due Key areas where the Company is exposed to credit risk are

- exposure to corporate bonds,
- reinsurers' share of insurance liabilities,

- amounts due from reinsurers in respect of claims already paid,
- amounts due from insurance contract holders,
- amounts due from insurance intermediaries, and

The Company places limits on its exposure to a single counterparty, or groups of counterparty

Reinsurance risk

Reinsurance is used to manage insurance risk The primary reinsurer is NFU Mutual All Broker and Intermediary business is 100% reinsured This does not, however, discharge the Company's liability as primary insurer If a reinsurer fails to pay a claim, the Company remains liable for the payment to the policyholder The creditworthiness of reinsurers is considered on a regular basis by reviewing their financial strength, particularly prior to finalisation of any contract In addition, the recent payment history of reinsurers is used to update the reinsurance purchasing strategy

Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost The Group Investment Committee monitors the amount of cash required to meet obligations on a quarterly basis and ensures that sufficient cash will be available from holdings and/or maturing funds

Auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting

Sir Don Curry	I S Geden
Chairman	*Chief Executive*

Stratford-upon-Avon, 21st March, 2007

Profit & Loss Account
Technical Account – General Business

for the year ended 31st December, 2006	2006 £m	2005 £m (As restated)
Gross premiums written (note 2)	46 0	47 9
	46 0	47 9
Outwards reinsurance	(54 8)	(19 3)
Net premiums written	(8 8)	28 6
Change in the gross provision for unearned premiums	0 1	0 3
Change in the provision for unearned premiums, reinsurers' share	(0 1)	(0 3)
Decrease in the net provision for unearned premiums	0	0
Earned premiums, net of reinsurance	(8 8)	28 6
Allocated investment return transferred from the non technical account (note 7)	2 1	3 5
Total technical income	(6 7)	32 1
Gross claims paid	16 4	25 0
Reinsurers' share	(4 8)	(5 0)
Net claims paid	11 6	20 0
(Decrease) in the gross provision for claims	(16 3)	(29 6)
(Increase) /Decrease in reinsurers' share	(32 7)	2 5
(Decrease) in the net provision for claims	(49 0)	(27 1)
Claims incurred, net of reinsurance	(37 4)	(7 1)
Changes in other technical provisions, net of reinsurance	(0 1)	(0 2)
Net operating expenses (note 5)	11 9	12 0
(Decrease) in the equalisation provision	–	(4 9)
Total Technical (Income) / Charges	(25 6)	(0 2)
Surplus on the technical account – general business	18 9	32 3

Profit & Loss Account
Non-Technical Account

for the year ended 31st December, 2006	2006 £m	2005 £m
Surplus on the technical account – general business	18 9	32 3
Investment income (note 6)	9 7	12 5
Unrealised gains on investments (note 6)	(5 6)	1 0
Allocated investment return transferred to the general business technical account (note 7)	(2 1)	(3 5)
Other charges	(0 2)	(0 2)
Continuing operations *(note 3)*	13 7	14 5
Discontinued operations *(note 3)*	7 0	27 6
Total operating profit	20 7	42 1
Profit on sale of premium renewal rights (note 8)	–	3 3
Profit on ordinary activities before tax (note 10)	20 7	45 4
Taxation on profits on ordinary activities (note 11)	(6 4)	(13 7)
Profit on ordinary activities after taxation	14 3	31 7
Paid dividend (note 12)	(18 0)	(8 0)
Retained profit / (loss) for the financial year *(note 15)*	(3 7)	23 7

Statement of Total Recognised Gains and losses

	2006 £m	2005 £m
Profit on ordinary activities after taxation	14 3	31 7
Revaluation of subsidiary	0 8	1 2
Total recognised gains relating to the year	15 1	32 9

Balance Sheet

As at 31st December, 2006	2006 £m	2005 £m
Assets		
Investments		
Shares in subsidiaries (note 13a)	26 7	25 9
Listed British Government and local authority securities	68 2	97 2
Listed fixed interest stocks	73 8	72 0
Mortgages, loans and deposits	9 2	38 5
Other financial investments (note 13b)	151 2	207 7
	177 9	233 6
Reinsurers' share of technical provisions		
Provision for unearned premiums	0 2	0 4
Claims outstanding	58 9	26 2
Other technical provisions – provisions for unexpired risks	0 2	0 2
	59 3	26 8
Debtors		
Due from policyholders	0 2	0 2
Due from intermediaries	0 1	0 3
Debtors arising out of direct insurance operations	0 3	0 5
Debtors arising out of reinsurance operations	0 6	1 6
Due from Parent Society	0 4	–
Other debtors	0 2	0 2
	1 5	2 3
Other assets		
Cash at bank and in hand	0 4	1 0
Prepayments and accrued income		
Accrued interest and rent	2 7	2 5
Total assets	241 8	266 2

Balance Sheet

As at 31st December, 2006	2006 £m	2005 £m
Liabilities		
Capital and reserves		
Called up share capital (note 14)	20 0	20 0
Profit and loss account (note 15)	131 6	135 3
Revaluation Reserve (note 16)	14 7	13 9
Shareholders' funds attributable to equity interests (note 17)	166 3	169 2
Technical provisions		
Provision for unearned premiums	0 2	0 4
Claims outstanding	65 9	82 2
Other technical provisions – provision for unexpired risk	0 4	0 5
	66 5	83 1
Creditors		
Creditors arising out of direct insurance operations	2 0	2 6
Creditors arising out of reinsurance operations	2 7	2 9
Due to Parent Society	–	0 1
Corporation tax	3 9	7 6
Other	–	0 3
Other taxation	0 4	0 4
Other creditors including taxation and social security	4 3	8 3
	9 0	13 9
Total liabilities	241 8	266 2

These financial statements were approved by the directors at a meeting on 21st March, 2007 and were signed on their behalf by

Sir Don Curry
Chairman

I S Geden
Chief Executive

Stratford-upon-Avon

Cash Flow Statement

for the year ended 31st December, 2006	2006 £m	2005 £m
Net cash inflow / outflow from continuing operating activities (note 23a)	(21 9)	1 5
Returns on investments and servicing of Finance	(18 0)	(8 0)
Taxation paid	(10 1)	(13 4)
Acquisitions and Disposals	–	3 5
Net cash (Outflow)	(50 0)	(8 0)
Cash flows were invested/(applied) as follows.		
(Decrease)/Increase in cash holdings (note 23b)	(0 6)	(0 4)
Net portfolio investment		
Deposits with credit institutions (note 23c)	(29 3)	(23 4)
Fixed income securities (note 23d)	(20 1)	7 4
	(49 4)	(16 0)
Net (Application) of cash flows	(50 0)	(16 4)

Notes to Financial Statements

1 Accounting Policies

The financial statements have been prepared in accordance with Section 255 and 255A of, and Schedule 9A to, the Companies Act 1985 (as amended) and applicable accounting standards in the United Kingdom and with the Statement Of Recommended Practice (SORP) on accounting for insurance business issued by the Association of British Insurers (ABI) dated December 2005

The more important accounting policies, which unless otherwise stated have been applied consistently are set out below

a) Changes in Accounting Policy

There have been no new Financial Reporting Standards adopted during the year

b) Translation and Conversion of Foreign Currencies

Foreign currency transactions have been converted into sterling at rates of exchange ruling during the year Assets and liabilities in foreign currencies have been translated at the rates of exchange ruling at the end of the year Exchange differences are taken to the Profit and Loss account

c) General Insurance Business

Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the company, less an allowance for cancellations Bonuses granted to policyholders on future renewal of their policies are recognised as a reduction to premiums written when policies are renewed Related reinsurance premiums are accounted for when paid or payable

The balance on the Technical Account – General Business is determined after making provision for unearned premiums, unexpired risks and outstanding claims

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date

Provision for unearned premiums is calculated on a 365th inception basis

Provision for unexpired risks is maintained, when required, to cover the estimated excess of liabilities over the associated unearned premium after taking into account future investment return

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 Where applicable, deductions are made for salvage and other recoveries

Claims Provisions

Provision is made at the year end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the company The provision calculated takes account of handling costs, salvage and other known recoveries, anticipated inflation, legal costs and trends in settlement

Notified outstanding claims reserves

The cost of notified but not settled claims are estimated on an individual case by case basis by claims handlers using their experience of past settlements and known and expected legislative changes

Incurred but not reported claims reserves

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty Classes of business, such as employers' liability, where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves

IBNR claims are estimated using statistical techniques, which use past trends to forecast separately the expected number of claims and the expected average cost of claims Separate allowance is made for large claims An allowance is made for expected changes in future trends, such as changes in company processes, changes in the legal environment, changes in mix of business and changes in expected claims inflation In addition, exposure based techniques are adopted to estimate reserves required for new sources of loss not significantly evident in historic data

Equalisation provisions have been established in accordance with the requirements of the Insurance Prudential Sourcebook to mitigate exceptional high loss ratios for classes of business displaying a high degree of claims volatility

Provisions are calculated gross of any reinsurance recoveries A separate estimate is made of the amount that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability

Reinsurance
Claims outstanding and IBNR for all reinsured policies are shown gross with equal and opposite recoveries attributable to the reinsurer

Reinsurance recoveries
Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the company's reinsurance programme over time 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

d) Investment Return

Investment return comprises investment income, including investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges

Realised gains and losses on investments carried at market value are calculated as the difference between net sales proceeds and purchase price Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period

Movement in unrealised gains and losses in investments are included in the Profit and Loss Account other than those in respect of the investment in subsidiaries and associates which are taken to the revaluation reserve

Gains and losses on realisation of investments are included within investment income or investment expenses in the Non-Technical Account Unrealised gains and losses are also included within the Non Technical Account Allocations from the Non Technical Account are made to the Technical Account – General Business of the longer term investment return on investments supporting the general insurance technical provisions, rather than an allocation of the current yare investment returns in isolation This ensures that the effect of any short term market movement is excluded

The longer term rate of investment return is an estimate of the long-term trend investment return having regard to past performance over the past forty years, current trends and future expectations

e) Taxation

United Kingdom and overseas taxation charged in the Non Technical Account and the Technical Account General Business based on profits and income including realised gains and losses on all investments for the year as determined in accordance with the relevant tax legislation, together with adjustments in respect of earlier years Deferred taxation is calculated on the liability method and consists of the estimated taxation, or relief from taxation, which is expected to arise in the foreseeable future from material timing differences, including unrealised appreciation of investments Deferred tax is not discounted and is calculated at the rates at which it is expected that the tax will arise and the pattern of the expected realisation of investments Movements in this taxation provision are charged to the Non Technical Account

f) Retirement Benefits Scheme

The Group operates a defined benefit pension scheme for the majority of its employees The cost of providing benefits is determined using the Projected Unit Credit Method with actuarial valuations being carried out at each balance sheet date The cost and returns on the pension scheme are taken through the profit and loss account Actuarial gains and losses are recognised in full in the period in which they occur They are recognised outside the profit and loss account and presented in the statement of total recognised gains and losses Deferred taxation is provided on the surplus in the scheme on the basis described in note 1(e)

Payments to defined contribution retirement benefit schemes are charged as an expense when paid

g) Financial Instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to contractual provisions of the instrument

Debtors
Trade debtors are measured at initial recognition at the value transferred Subsequent measurements are made having an appropriate allowance for estimated irrecoverable amounts

Investments
Investments are shown at market value Unlisted investments and mortgages are included at directors' valuation The investments in subsidiaries are valued at current value

Investments are recognised and derecognised on the trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value

Creditors
Trade creditors are valued at the initial value of the transaction

2 **Segmental Information**

All business is transacted in the UK

a) Gross Premiums Written

The gross premium income for the year by major class of business was as follows

	2006 £m	2005 £m (As restated)
Continuing operations		
Accident and Health	45 3	47 1
Fire and Other Damage to Property	0 7	0 8
	46 0	47 9
Discontinued operations		
Fire and Other Damage to Property	-	-
	46 0	47 9

b) Gross Premiums Earned

	2006 £m	2005 £m (As restated)
Continuing operations		
Accident and Health	45 3	47 1
Fire and Other Damage to Property	0 8	0 7
	46 1	47 8
Discontinued operations		
Fire and Other Damage to Property	-	(0 1)
Motor	-	0 4
Accident and Health	-	0 1
	-	0 4
	46 1	48 2

c) Gross Claims Incurred

	2006 £m	2005 £m (As restated)
Continuing operations		
Accident and Health	3 8	5 2
Fire and Other Damage to Property	0 2	0 4
	4 0	5 6
Discontinued operations		
Fire and Other Damage to Property	(2 3)	(6 6)
Motor	(1 5)	(2 7)
Accident and Health	0 1	(0 8)
Reinsurance Accepted	(0 2)	(0 1)
	(3 9)	(10 2)
	0 1	(4 6)

d) Gross Operating Expenses

	2006 £m	2005 £m
Continuing operations		(As restated)
Accident and Health	12 8	13 1
Discontinued operations		
Fire and Other Damage to Property		
Motor	(0 1)	(0 2)
	12 7	12 9

e) Reinsurance Balance

	2006 £m	2005 £m
Continuing operations		
Accident and Health	16 0	15 8
Fire and Other Damage to Property	0 6	0 4
	16 6	16 2
Discontinued operations		
Fire and Other Damage to Property	(0 6)	0 9
Motor	0 7	(0 6)
Accident and Health	(0 1)	(0 2)
	–	0 1
	16 6	16 3

3 **Analysis of Profit and Loss Account items**

	2006 Continuing £m	2006 Discontinued £m	2006 Total £m	2005 Continuing £m	2005 Discontinued £m	2005 Total £m
					(As restated)	
Earned premiums, net of reinsurance	27 2	(36 0)	(8 8)	28 6	–	28 6
Other technical income	–	–	–	–	–	–
Allocated investment return transferred from the non technical account	0 3	1 8	2 1	0 2	3 3	3 5
Claims incurred, net of reinsurance	(2 5)	39 9	37 4	(3 3)	10 4	7 1
Changes in other technical provisions	0 1	–	0 1	0 2	–	0 2
Net operating expenses	(12 1)	0 2	(11 9)	(12 3)	0 3	(12 0)
Change in equalisation provision	–	–	–	–	4 9	4 9
Balance on the technical account for general business	13 0	5 9	18 9	13 4	18 9	32 3
Investment income	2 6	7 1	9 7	1 3	11 2	12 5
Investment expenses and charges	–	–	–	–	–	–
Unrealised gains on investments	(1 5)	(4 1)	(5 6)	0 1	0 9	1 0
Allocated investment return transferred to the general business technical account	(0 3)	(1 8)	(2 1)	(0 2)	(3 3)	(3 5)
Other income	–	–	–	–	–	–
Other charges	(0 1)	(0 1)	(0 2)	(0 1)	(0 1)	(0 2)
Total operating profit	13 7	7 0	20 7	14 5	27 6	42 1

Following the portfolio transfer of the Broker and Intermediary business on the 1st October 2006, all investment returns on net assets are treated as continuing business

4 **Movement in prior year's provisions for claims outstanding**

Positive run off deviations of £0 5m (2005 – £5 2m) for Motor, £6 5m (2005 – £1 0m) for Liability and £1 4m (2005 – £2 9m) for Property were experienced for the year

5 Net Operating Expenses

	2006 £m	2005 £m
Acquisition costs	7 8	9 4
Administration expenses	4 9	3 5
Reinsurance commissions and profit participation	(0 8)	(0 9)
	11 9	12 0

Total commission for direct insurance accounted for during the year 2006 amounted to £6 0m (2005 – £6 5m)

6 Investment Return

	2006 £m	2005 £m
Income from other investments	11 2	11 7
Net gains on the realisation of investments	(1 5)	0 8
Investment income	9 7	12 5
Movement in unrealised investment gains / (losses)	(5 6)	1 0
Investment return for the year	4 1	13 5

7 General Business Longer Term Investment Return

Analysed between	2006 £m	2005 £m
Allocated investment return transferred to the Technical Account – General Business	2 1	3 5
Net investment return included in the Non-Technical Account	2 0	10 0
	4 1	13 5

Longer term rates of investment return

	2006 %	2005 %
Fixed interest Stock	5 6%	5 7%
Cash	4 4%	4 2%

A 1% increase / decrease on the longer term rate of investment return would result in a increase / decrease in longer-term investment return of £0 4m (2005 – £0 7m)
There is no material difference over a 5 year period between the actual return attributable to investments supporting the technical reserves and the longer term return credited to operating results

8 Profit on sale of premium renewal rights

The profit on disposal shown of £3 3m in 2005 in the Profit and Loss account represents earn out payments received following the sale of the renewal rights of Avon Insurance Broker and Intermediary business on the 31st december 2002 no amount has been recognised in 2006

9 Directors and Employee Information

The aggregate emoluments of the Company's directors were £57,961 (2005 – £66,442) all of which was in respect of fees for service as non-executive directors

	2006 £	2005 £
Sir Don Curry	34,777	40,000
I D Grant	23,184	26,442
	57,961	66,442

A pension contribution of £4,127 (2005 – £3,865) was made in respect of serving directors Pensions to former directors amounted to £41,328 (2005 – £39,768)

The employees of the Company do not have contracts of service with Avon Insurance plc but with another Group Company, The National Farmers Union Mutual Service Company Limited

The number of persons involved is

	2006	2005
Administration and finance	61	55
Claims	5	5
	66	60

A recharge is made from The National Farmers Union Mutual Service Company Limited for the services of the above employees This amounted to £1 5m (2005 – £1 1m)

10 Profit for the year

Profit for the year is stated after charging -

	2006 £k	2005 £k
Fees payable to the company's auditor for the audit of the company's annual accounts	36	85
Fees payable to the company's auditor and its associates for other services		
The audit of the company's subsidiaries, pursuant to legislation	2	2

11 **Taxation**

	2006 £m	2005 £m
United Kingdom Taxation		
Corporation tax	6 4	13 7
Total United Kingdom Taxation	6 4	13 7

Factors affecting the tax charge for the period	2006 £m	2005 £m
Profit on ordinary activities before tax	20 7	45 4
Profit on ordinary activities multiplied by standard rate of corporate tax in the UK of 30% (2005 30%)	6 2	13 6
Investment Income /(Expense) (equities)	0 1	(0 2)
Unrealised gains /(losses) on equities	(0 2)	0 1
Claims reserves	0 3	0 3
Adjustment to tax charge in respect of previous periods	(0 1)	(0 1)
Current tax charge for the period	6 4	13 7

Included in the tax charge for the period is an amount of £nil (2005 – £1 0m) in respect of the disposal of renewal rights

12 **Dividends**

	2006 £m	2005 £m
Equity Shares		
Dividend paid of 90p per share (2005 – 40p per share)	18 0	8 0
	18 0	8 0

13 **Investments**

a) Shares in subsidiaries

Purchase price of Investments £12m (2005 – £12m)

The Company owns the whole of the issued share capital of Tiddington Investments Limited whose principal activity is a non dealing Investment Company, which is incorporated in Great Britain and registered in England and Wales The Company is exempt under Section 228 of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its parent, The National Farmers Union Mutual Insurance Society Limited, a company incorporated in England and Wales The value of the Company's interest in its subsidiaries is not less than the amount at which the interest is stated in the balance sheet

b) Other financial investments

	2006 £m		2005 £m	
	Valuation	Cost	Valuation	Cost
Listed British Government and Local Authority securities	68 2	69 9	97 2	96 5
Listed fixed interest stocks	73 8	72 9	72 0	67 8
With credit institutions	9 2	9 2	38 5	38 5
	151 2	152 0	207 7	202 8

14 Share Capital

The authorised capital at 31st December, 2006 was £100m (2005 – £100m) divided into shares of £1 each, of which £20m (2005– £20m) were issued and fully paid

15 Profit and Loss Account

	2006 £m	2005 £m
Balance at 1st January as previously stated	135 3	103 6
Prior year adjustment	-	8 0
Balance at 1st January as restated	135 3	111 6
Transfer from non Technical account	(3 7)	23 7
Balance as at 31st December	131 6	135 3

16 Revaluation Reserve

The balance in the revaluationreserve reflects the movement in the net asset value of investment in subsidiary companies

	2006 £m	2005 £m
Balance at 1st January	13 9	12 7
Revaluation Movement	0 8	1 2
Balance at 31st December	14 7	13 9

17 Movements in Shareholders' Funds

	2006 £m	2005 £m
Balance at 1st January	169 2	144 3
Profit and loss account (note 15)	(3 7)	23 7
Revaluation reserves	0 8	1 2
Balance at 31st December	166 3	169 2

18 Claims Equalisation Provision

Equalisation provisions are established in accordance with the requirements of the Insurance Prudential Source book These provisions, which are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, are required by Schedule 9A to the Companies Act 1985 to be included within technical provisions in the balance sheet notwithstanding that they do not represent liabilities at the balance sheet date Following the sale of the renewal book in 2002 and in accordance with Equalisation Provision requirements during 2005 the reserve was released The effect on profit on ordinary activities before taxation was £nil (2005 – £4 9m) in the financial statements

19 Retirement Benefit Schemes

The NFU Mutual Group operates the NFU Mutual Retirement Benefit Scheme which provides membership with benefits on a Defined Benefits and Defined Contribution basis that covers all material obligations to provide pensions to retired and current employees Contributions made over the year by the Company were £nil (2005 – £nil)

The contributions for the schemes are determined by an independent qualified actuary on the basis of triennial valuations using the Projected Unit Method As the NFU Mutual retirement benefit Scheme admits new members in a Defined Contribution basis and not a Defined Benefit basis, the current service cost in respect of Defined Contribution members will typically increase (as a percentage of pensionable pay) as the average age of the active membership increases The most recent valuation was at 31st December 2005 At this date the market value of the investments of the schemes was £640m (2005 – £461m) The assets of these schemes were in excess of the amount required to cover the benefits that had accrued to members after allowing for future increases in earnings

As a result contributions to the Scheme by the Society are currently suspended

20 Provision for other risks and charges

a) Deferred Taxation

	2006 £m	2005 £m
Balance at 1st January	0 1	0 1
Charge for the year	-	-
Balance at 31st December	0 1	0 1

The provision for deferred taxation comprised

	2006 £m	2005 £m
Unrealised gains on investments	-	-
Other short term timing differences	-	-
	-	-

There is no unprovided Deferred Taxation

21 Contingent Liabilities

There are no contingent liabilities

22 Capital Expenditure

There were no capital commitments at 31st December, 2006 not provided for in these financial statements (2005 £nil)

23 Cash Flow Statement

a) Reconciliation of Profit Before Tax to Net Cash Inflow from Operating Activities

	2006 £m	2005 £m
Operating Profit	20 7	42 1
Decrease in debtors, prepayments and accrued income	0 6	0 9
(Decrease) in creditors, accruals and deferred income	(1 2)	(7 6)
(Decrease) in technical provisions	(49 1)	(32 1)
Realised and unrealised investment (gains)	7 1	(1 8)
Net cash Inflow from operating activities	(21 9)	1 5

b) Movement in portfolio investments net of financing

	2006 £m	2005 £m
(Decrease)/Increase in cash holdings	(0 6)	(0 4)
Cash (Outflow) on portfolio investments	(49 4)	(16 0)
Movement arising from cash flows	(50 0)	(16 4)
Changes in market value and currencies	(7 1)	1 8
Total movement in portfolio investments, net of financing	(57 1)	(14 6)
Portfolio investments, net of financing at 1st January	208 7	223 3
Portfolio investments, net of financing at 31st December	151 6	208 7

c) Cash flows invested in portfolio investments

	2006 £m	2005 £m
Purchase of debt securities and other fixed income securities	15 6	25 5
Sales of debt securities and other fixed income securities	(35 7)	(18 0)
Net (Decrease) in deposits with credit institutions	(29 3)	(23 3)
Net cash (Outflow) on portfolio investments	(49 4)	(15 8)

d) Movement in cash, portfolio investments net of financing

	As at 1st January, 2006 £m	Cash flow £m	Changes to Market values & currencies £m	As at 31st December 2006 £m
Cash at bank and in hand	1 0	(0 6)	–	0 4
Debt securities and other fixed income securities	169 2	(20 1)	(7 1)	142 0
Deposits with credit institutions	38 5	(29 3)	–	9 2
Total	208 7	(50 0)	(7 1)	151 6

24 Related Parties

The Company has taken advantage of the exemption set out in FRS8 not to disclose transactions with other Group Companies

25 Ultimate Holding Company

The immediate parent company is NFU Mutual Management Company Limited, which is incorporated in England and Wales
The company's ultimate controlling undertaking and parent company is The National Farmers Union Mutual Insurance Society Limited, which is incorporated in England and Wales Copies of the consolidated accounts of the ultimate controlling party can be obtained from the Secretary at the following address Tiddington Road, Stratford-upon Avon, CV37 7BJ

Independent Auditors' Report to the members of Avon Insurance plc

We have audited the financial statements of Avon Insurance plc 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 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 the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

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
Bristol, 23rd March 2007