

Avon Insurance plc Annual Report 2004



Board of Directors

Chairman

Sir Don Curry, C.B.E., FR.Ag.S.

Vice-Chairman

I. D. Grant, C.B.E., FR.Ag.S.

Chief Executive

I. S. Geden, F.C.I.I.

A. Harris, M.B.A., F.C.I.I.

Registered no. 209606



Directors' Report

Principal Activities

The principal activity of the Company is the transaction of Personal Accident insurance business and management of the run off of its broker and intermediary business.

Review of Business

Following the sale on the 31st December 2002 of the broker and intermediary business to The National Insurance and Guarantee Corporation Limited, both the level of continuing business and the year end financial position remain satisfactory. Net written premiums for the year amounted to £29.0m and net earned premiums amounted to £29.6m. Net claims released were £6.4m. After taking into account investment income from the Non-Technical Account and making provision for expenses, unearned premiums, less deferred acquisition costs, a surplus of £27.9m has been transferred from the Technical Account. After adding the balance of investment income, less expenses, the profit before taxation was £37.0m. The profit after tax was £25.5m, and after providing for a further proposed dividend of £8.0m, the balance to be transferred from reserves amounts to a profit of £17.5m.

Directors

In accordance with the Articles of Association, Mr A. Harris retires, and being eligible, offers himself for re-election.

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.

Corporate Governance

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

Introduction of the euro

The Company does not conduct business in countries participating in the euro, but is affected by the requirement to record investments held in euro. It is currently undertaking a project to consider the impact of the introduction of the euro.

Shareholder Engagement and Voting Policy

The Shareholder Engagement and Voting Policy of the investment department of the Group takes account of the Institutional Shareholders' Committee* principles. These principles set out best practice for institutional shareholders in relation to their responsibilities in respect of investee companies. The investment managers of the Group are encouraged to engage with investee companies where this may secure or enhance value in a cost effective way. A statement of the policy on shareholder engagement and voting is available on request.

(*Institutional Shareholders' Committee members are: the Association of British Insurers; the Association of Investment Trust Companies; the National Association of Pension Funds; and the Investment Management Association.)

Auditors

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



Sir Don Curry
Chairman



I. S. Geden
Chief Executive

Stratford-upon-Avon, 24th March, 2005

Profit & Loss Account

Technical Account – General Business

for the year ended 31st December, 2004

2004 £m

2003 £m

<i>Gross premiums written (note 2)</i>		
Continuing operations	47.7	45.5
Discontinued operations	2.6	1.4
	50.3	46.9
Outwards reinsurance	(21.3)	(32.6)
Net premiums written	29.0	14.3
Change in the gross provision for unearned premiums	0.9	66.9
Change in the provision for unearned premiums, reinsurers' share	(0.3)	(0.1)
Decrease in the net provision for unearned premiums	0.6	66.8
Earned premiums, net of reinsurance	29.6	81.1
Allocated investment return transferred from the non-technical account	4.9	7.6
Other technical income	0.1	0.5
Total technical income	34.6	89.2
Gross claims paid	31.5	64.0
Reinsurers' share	(7.1)	(3.6)
Net claims paid	24.4	60.4
(Decrease) in the gross provision for claims	(34.3)	(25.2)
Decrease/(Increase) in reinsurers' share	3.5	(2.3)
(Decrease) in the net provision for claims	(30.8)	(27.5)
Claims incurred, net of reinsurance	(6.4)	32.9
Changes in other technical provisions, net of reinsurance	(0.1)	(0.1)
Net operating expenses (note 5)	13.2	29.6
(Decrease) in the equalisation provision	–	(0.3)
Total Technical Charges	6.7	62.1
Surplus on the technical account - general business	27.9	27.1

Profit & Loss Account Non-Technical Account

for the year ended 31st December, 2004

	2004 £m	2003 £m
<i>Surplus on the technical account - general business</i>	27.9	27.1
<i>Investment income (note 6)</i>	12.8	65.3
<i>Investment expenses and charges (note 6)</i>	(0.1)	(0.1)
<i>Unrealised gains on investments (note 6)</i>	0.1	-
<i>Unrealised losses on investments (note 6)</i>	-	(45.7)
<i>Allocated investment return transferred to the general business technical account (note 7)</i>	(4.9)	(7.6)
<i>Other income</i>	0.9	1.5
<i>Other charges</i>	(0.2)	(0.2)
Continuing operations (note 3)	15.7	13.0
Discontinued operations (note 3)	20.8	27.3
<i>Total operating profit</i>	36.5	40.3
<i>Profit on sale of premium renewal rights (note 8)</i>	0.5	0.8
<i>Profit on ordinary activities before tax (note 10)</i>	37.0	41.1
<i>Taxation on profits on ordinary activities (note 11)</i>	(11.5)	(10.9)
<i>Profit on ordinary activities after taxation</i>	25.5	30.2
<i>Proposed and paid dividend (note 12)</i>	(8.0)	(110.0)
Retained profit/(loss) for the financial year (note 15)	17.5	(79.8)

Statement of Total Recognised Gains and losses

	2004 £m	2003 £m
<i>Retained profit/(loss) for the financial year</i>	17.5	(79.8)
<i>Revaluation of subsidiary</i>	0.9	1.0
Total recognised gains/(losses) relating to the year	18.4	(78.8)

Balance Sheet

As at 31st December, 2004

2004 £m

2003 £m

Assets

Investments

<i>Shares in subsidiaries (note 13a)</i>	24.7	23.7
<i>Listed British Government and local authority securities</i>	95.9	92.5
<i>Listed fixed interest stocks</i>	64.1	70.6
<i>Mortgages, loans and deposits</i>	61.9	81.2
<i>Other financial investments (note 13b)</i>	221.9	244.3
	246.6	268.0

Reinsurers' share of technical provisions

<i>Provision for unearned premiums</i>	0.7	1.0
<i>Claims outstanding</i>	28.7	32.2
<i>Other technical provisions - provisions for unexpired risks</i>	0.3	0.5
	29.7	33.7

Debtors

<i>Due from policyholders</i>	0.3	1.4
<i>Due from intermediaries</i>	0.3	-
<i>Debtors arising out of direct insurance operations</i>	0.6	1.4
<i>Debtors arising out of reinsurance operations</i>	1.3	0.6
<i>Due from Parent Society</i>	1.0	0.9
<i>Other debtors</i>	0.5	1.1
	3.4	4.0

Other assets

<i>Cash at bank and in hand</i>	1.4	0.8
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Prepayments and accrued income

<i>Accrued interest and rent</i>	2.5	2.9
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Total assets

283.6	309.4
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Balance Sheet

As at 31st December, 2004

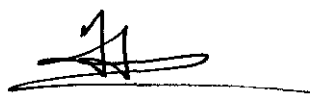
2004 £m

2003 £m

Liabilities		
Capital and reserves		
<i>Called up share capital (note 14)</i>	20.0	20.0
<i>Profit and loss account (note 15)</i>	103.6	86.1
<i>Revaluation Reserve (note 16)</i>	12.7	11.8
Shareholders' funds attributable to equity interests (note 17)	136.3	117.9
Technical provisions		
<i>Provision for unearned premiums</i>	0.7	1.6
<i>Claims outstanding</i>	111.8	146.1
<i>Claims equalisation provision (note 18)</i>	4.9	4.9
<i>Other technical provisions - provision for unexpired risk</i>	0.7	0.9
	118.1	153.5
Provision for other risks and charges (note 20)	0.7	0.8
Creditors		
<i>Creditors arising out of direct insurance operations</i>	3.9	2.9
<i>Creditors arising out of reinsurance operations</i>	3.1	1.8
<i>Due to Group undertaking</i>	5.5	5.5
<i>Corporation tax</i>	7.3	13.9
<i>Other</i>	0.3	2.7
<i>Other taxation</i>	0.4	0.4
<i>Proposed dividend</i>	8.0	10.0
Other creditors	16.0	27.0
	29.2	38.0
Total liabilities	283.6	309.4

These financial statements were approved by the directors at a meeting on 24th March, 2005 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, 2004

2004 £m

2003 £m

Net cash inflow/(outflow) from continuing operating activities (note 23a)	4.9	(4.3)
<i>Taxation paid</i>	(18.2)	(14.7)
<i>Disposal of renewal rights</i>	1.1	-
<i>Equity dividends paid</i>	(10.0)	(100.0)
Net cash (Outflow)	(22.2)	(119.0)
Cash flows were invested/(applied) as follows:		
<i>Increase/(Decrease) in cash holdings (note 23b)</i>	0.6	(1.4)
Net portfolio investment		
<i>Ordinary shares (note 23c)</i>	-	(130.4)
<i>Fixed Income securities (note 23d)</i>	(3.5)	-
<i>Investment properties (note 23c)</i>	-	(16.1)
<i>Deposits with credit institutions (note 23c)</i>	(19.3)	28.9
	(22.8)	(117.6)
Net (Application) of cash flows	(22.2)	(119.0)

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 November 2003.

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

a) Changes in Accounting Policy

The ABI revised its SORP on accounting for Insurance business in 2003. The revised SORP has been applied in preparing these financial statements. The adoption of its provisions has resulted in the following changes.

Where an annuity has been purchased in settlement of a claim the SORP now requires the liability to be recognised in the balance sheet with a matching asset. The application of this accounting policy has had no impact on the current or prior years profit on ordinary activities after taxation. The balance sheet has not been restated for the prior year as the effect is not material.

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 inception 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 Interim Prudential Sourcebook for Insurers 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.

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.

Account is taken of dividend income when the related investment goes 'ex-dividend' and other investment income is included on an accruals basis.

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.

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) Investments

Investments are shown at market value. Unlisted investments and mortgages are included at directors' valuation.

g) Retirement Benefits Scheme

Employees have the opportunity to become members of the NFU Mutual Insurance Society Retirement Benefit Scheme, a defined benefit scheme. Details of this fund and its latest actuarial valuation are given in the Annual Accounts of National Farmers Union Mutual Insurance Society Limited.

On a triennial basis, a formal valuation of the NFU Mutual Insurance Society Retirement Benefit Scheme is undertaken by an independent actuary. The most recent full valuation of the Fund was performed as at 31 December 2002. There were no contributions to the NFU Mutual Insurance Society Retirement Benefit Scheme in the year (2003: £nil); they are based on the assumptions of the Group as a whole which are determined in accordance with the advice of the independent actuary and are agreed with the Scheme Trustees.

The transitional provisions of FRS 17, Retirement Benefits, are included in the accounts of NFU Mutual Insurance Society. The NFU Mutual Insurance Society Retirement Benefit Scheme had a net pension surplus for FRS 17 purposes at 31 December 2004 of £88.0m, having taken into account a related deferred tax liability of £38.0m. Since the company is unable to identify its share of the underlying assets and liabilities of the Scheme, under FRS 17, contributions to the Scheme are accounted for as if they were contributions to a defined contribution scheme.

2 Segmental Information

a) Gross Premiums Written

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

	2004 £m	2003 £m
Continuing operations		
<i>Personal</i>	47.7	45.5
Discontinued operations		
<i>Fire and Accident</i>	1.1	1.0
<i>Motor</i>	1.3	1.8
<i>Personal</i>	0.2	(1.4)
	<u>2.6</u>	<u>1.4</u>
	<u>50.3</u>	<u>46.9</u>

b) Gross Premiums Earned

	2004 £m	2003 £m
Continuing operations		
<i>Personal</i>	47.7	45.5
Discontinued operations		
<i>Fire and Accident</i>	1.5	34.9
<i>Motor</i>	1.7	12.3
<i>Personal</i>	0.3	16.8
<i>Reinsurance Accepted</i>	-	4.3
	<u>3.5</u>	<u>68.3</u>
	<u>51.2</u>	<u>113.8</u>

c) Gross Claims Incurred

	2004 £m	2003 £m
Continuing operations		
<i>Personal</i>	6.4	6.1
Discontinued operations		
<i>Fire and Accident</i>	(3.3)	10.3
<i>Motor</i>	(4.3)	11.4
<i>Personal</i>	(1.6)	11.1
<i>Reinsurance Accepted</i>	-	(0.1)
	<u>(9.2)</u>	<u>32.7</u>
	<u>(2.8)</u>	<u>38.8</u>

d) Gross Operating Expenses

Continuing operations

Personal

2004 £m

2003 £m

12.5

13.0

Discontinued operations

Fire and Accident

0.7

10.5

Motor

1.0

2.5

Personal

-

4.7

1.7

17.7

14.2

30.7

e) Reinsurance Balance

Continuing operations

Personal

15.1

14.9

Discontinued operations

Fire and Accident

(2.0)

4.3

Motor

4.0

1.0

Personal

0.1

1.0

Reinsurance Accepted

-

4.4

2.1

10.7

17.2

25.6

The reinsurance balance represents the charge to the technical account from the aggregate of all items relating to reinsurance outwards

f) Analysis by geographic area

Gross written premiums

United Kingdom

2004 £m

2003 £m

Continuing operations

47.7

45.5

Discontinued operations

2.6

1.4

50.3

46.9

Profit before taxation and minority interests

United Kingdom

2004 £m

2003 £m

Continuing operations

15.7

13.0

Discontinued operations

21.3

28.1

37.0

41.1

Net Assets

United Kingdom

2004 £m

2003 £m

Continuing operations

17.3

19.1

Discontinued operations

118.8

98.6

Overseas

0.2

0.2

136.3

117.9

3 Analysis of Profit and Loss Account items

	2004 Continuing £m	2004 Discontinued £m	2004 Total £m	2003 Continuing £m	2003 Discontinued £m	2003 Total £m
<i>Earned premiums, net of reinsurance</i>	29.0	0.6	29.6	27.2	53.9	81.1
<i>Other technical income</i>	-	0.1	0.1	-	0.5	0.5
<i>Allocated investment return transferred from the non-technical account</i>	0.2	4.7	4.9	0.3	7.3	7.6
<i>Claims incurred, net of reinsurance</i>	(3.4)	9.8	6.4	(3.3)	(29.6)	(32.9)
<i>Changes in other technical provisions</i>	0.1	-	0.1	0.1	-	0.1
<i>Net operating expenses</i>	(11.6)	(1.6)	(13.2)	(12.3)	(17.3)	(29.6)
<i>Change in equalisation provision</i>	-	-	-	-	0.3	0.3
<i>Balance on the technical account for general business</i>	14.3	13.6	27.9	12.0	15.1	27.1
<i>Investment income</i>	1.6	11.2	12.8	4.3	61.0	65.3
<i>Investment expenses and charges</i>	-	(0.1)	(0.1)	-	(0.1)	(0.1)
<i>Unrealised losses on investments</i>	-	0.1	0.1	(3.0)	(42.7)	(45.7)
<i>Allocated investment return transferred to the general business technical account</i>	(0.2)	(4.7)	(4.9)	(0.3)	(7.3)	(7.6)
<i>Other income</i>	-	0.9	0.9	-	1.5	1.5
<i>Other charges</i>	-	(0.2)	(0.2)	-	(0.2)	(0.2)
<i>Total operating profit</i>	15.7	20.8	36.5	13.0	27.3	40.3

4 Movement in prior year's provisions for claims outstanding

Positive run off deviations of £2.8m (2003 - Positive £1.8m) for Motor, positive £3.4m (2003 - Positive £7.5m) for Liability and positive £3.4m (2003 - Positive £3.2m) for Property were experienced for the year.

5 Net Operating Expenses

	2004 £m	2003 £m
<i>Acquisition costs</i>	8.6	9.9
<i>Decrease in deferred acquisition costs</i>	-	14.5
<i>Administration expenses</i>	5.6	6.3
<i>Reinsurance commissions and profit participation</i>	(1.0)	(1.1)
	13.2	29.6

Total commission for direct insurance accounted for during the year 2004 amounted to £6.3m (2003 - £5.5m).

6 Investment Return

	2004 £m	2003 £m
<i>Income from land and buildings</i>	–	0.7
<i>Income from other investments</i>	12.5	15.1
<i>Net gains on the realisation of investments</i>	0.3	49.5
<i>Investment income</i>	12.8	65.3
<i>Investment expenses and charges</i>	(0.1)	(0.1)
<i>Movement in unrealised investment (losses)</i>	0.1	(45.7)
<i>Investment return for the year</i>	12.8	19.5

7 General Business Longer Term Investment Return

	2004 £m	2003 £m
<i>Analysed between:</i>		
<i>Allocated investment return transferred to the Technical Account – General Business</i>	4.9	7.6
<i>Net investment return included in the Non-Technical Account</i>	7.9	11.9
	12.8	19.5

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

	Longer term rates of investment return	
	2004 %	2003 %
<i>Equities</i>	7.0	7.0
<i>Properties</i>	7.0	7.0

The longer term return credited to the operating results is based on the investments supporting the technical reserves of the General Business. There is no material difference 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

On the 31st December 2002 the right to invite renewal of Avon Insurance's broker and Intermediary business was sold to another party. The consideration for this transaction being commission payments based on the renewed Gross Premium Written in the following 12 months, and a share of any trading profit achieved in the 2 years following 31st December 2002 based on achieved Gross Loss Ratios.

The profit on disposal shown in the Profit and Loss account in 2003 represents additional consideration receivable in respect of gross written premiums in 2003. In 2004 an amount of £0.5m has been recognised as being a share of the trading profit. Any additional contingent consideration will be recognised in the period the qualifying conditions are met.

9 Directors and Employee Information

The aggregate emoluments of the Company's directors were £70,866 (2003 - Positive £74,688) all of which was in respect of fees for service as non-executive directors.

	2004 £	2003 £
<i>Sir Don Curry</i>	45,000	39,000
<i>I.D. Grant</i>	25,866	20,688
<i>R. J. Carter</i>	-	15,000
	<u>70,866</u>	<u>74,688</u>

No pension contributions were made in respect of serving directors. Pensions to former directors amounted to £40,321 (2003 - Positive £38,992).

The employees of the Company do not have contracts of service with Avon Insurance plc but with the ultimate parent company, The National Farmers Union Mutual Insurance Society Limited.

The number of persons involved is :

	2004	2003
<i>Administration and finance</i>	55	57
<i>Underwriting</i>	-	1
<i>Claims</i>	4	4
	<u>59</u>	<u>62</u>

A recharge is made from the parent Company for the services of the above employees. This amounted to £1.0m (2003 - £1.2m).

10 Profit for the year

Profit for the year is stated after charging:-

	2004 £m	2003 £m
<i>Auditors' fees for:</i>		
<i>Audit</i>	0.1	0.1
<i>Non audit</i>	-	-

11 Taxation

	2004 £m	2003 £m
United Kingdom Taxation		
<i>Corporation tax</i>	11.5	23.4
<i>Deferred tax</i>	-	(12.5)
	<u>11.5</u>	<u>10.9</u>
Total United Kingdom Taxation		
	<u>11.5</u>	<u>10.9</u>
Factors affecting the tax charge for the period		
<i>Profit on ordinary activities before tax</i>	37.0	41.1
<i>Profit on ordinary activities multiplied by standard rate of corporate tax in the UK of 30% (2003 30%)</i>	11.1	12.3
<i>Investment Income (equities)</i>	(0.1)	(1.1)
<i>Unrealised gains on equities</i>	0.1	12.4
<i>Claims reserves</i>	0.4	0.4
<i>Adjustment to tax charge in respect of previous periods</i>	-	(0.6)
	<u>11.5</u>	<u>23.4</u>

Included in the tax charge for the period is an amount of £0.2m (2003 - £0.2m) in respect of the disposal of renewal rights.

12 Dividends

	2004 £m	2003 £m
Equity Shares		
<i>Dividend paid of 0p per share (2003 - 500p per share)</i>	-	100.0
<i>Proposed dividend of 40p per share (2003 - 50p per share)</i>	8.0	10.0
	<u>8.0</u>	<u>110.0</u>

13 Investments:

a) Shares in subsidiaries

Purchase price of Investments £12.0m (2003 - £12.0m)

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

	2004 £m	2003 £m
Purchase price of other financial investments - <i>Listed British Government and Local Authority securities</i>	95.7	92.2
- <i>Listed fixed interest stocks</i>	60.4	67.1
- <i>With credit institutions</i>	61.9	81.2
	<u>218.0</u>	<u>240.5</u>

14 Share Capital

The authorised capital at 31st December, 2004 was £100.0m (2003 - £100.0m) divided into shares of £1 each, of which twenty million (2003 - twenty million) were issued and fully paid.

15 Profit and Loss Account

	2004 £m	2003 £m
<i>Balance at 1st January</i>	86.1	165.9
<i>Transfer from /(to) Non-Technical Account</i>	17.5	(79.8)
<i>Balance at 31st December</i>	<u>103.6</u>	<u>86.1</u>

16 Revaluation Reserve

	2004 £m
Balance at 1st January	11.8
Revaluation Movement	0.9
Balance at 31st December	12.7

17 Movements In Shareholders' Funds

	2004 £m	2003 £m
Balance at 1st January	117.9	196.7
Profit and loss account (note 15)	17.5	(79.8)
Revaluation reserves	0.9	1.0
Balance at 31st December	136.3	117.9

18 Claims Equalisation Provision

Equalisation provisions are established in accordance with the requirements of the Interim Prudential Source book for Insurers. 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. This did not have any effect on profit on ordinary activities before taxation (2003 - increase of £0.3m) in the financial statements.

19 Retirement Benefit Schemes

The Group operates the NFU Mutual Retirement Benefit Scheme that 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. The Group also sponsors pension schemes based in the Channel Islands for a small group of employees in that region. Liabilities for these schemes are immaterial in comparison to those of the NFU Mutual Retirement Benefit Scheme. The figures in this note consolidate the results of all the group's pension arrangements. The Group operates funded pension schemes with the assets of the schemes held separately from those of the companies. Contributions to the schemes are charged to the technical accounts so as to spread the cost of pensions over employees' working lives with the companies. The charge for the year was £nil (2003 - £nil).

The contributions for the schemes are determined by an independent qualified actuary on the basis of triennial valuations using the Projected Unit Method. The most recent valuation was at 31st December 2002. At this date the market value of the investments of the schemes was £461m. The assets of these schemes were 59% in excess of the amount required to cover the benefits that had accrued to members after allowing for future increases in earnings. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increases in salaries and pensions. It was assumed that the returns on investments would be 6.5% per annum, salary increases would average 4.25% per annum and present and future pensions would increase at the rate of 2.5% per annum. At 31st December 2004, the pension prepayment held on the Group's balance sheet is £21m (2003 - £21m).

On the basis of actuarial advice, it is calculated that the employer expense would represent a credit to the profit and loss account on full application of SSAP 24 principles. However to be prudent such expense has been taken as nil for the years ended 31 December 2004 and 2003.

20 Provision for other risks and charges

a) Deferred Taxation

<i>Balance at 1st January</i>
<i>Charge for the year</i>
<i>Balance at 31st December</i>

2004 £m	2003 £m
0.1	12.6
-	(12.5)
0.1	0.1

The provision for deferred taxation comprised:

<i>Unrealised gains on investments</i>
<i>Other short term timing differences</i>

2004 £m	2003 £m
0.1	0.1
-	-
0.1	0.1

There is no unprovided Deferred Taxation.

b) Motor Insurer's Bureau

The company is a member of the Motor Insurer's Bureau and as such has provided for its proportion of the proposed levy forecast.

<i>Balance at 1st January</i>
<i>Payments</i>
<i>(Release) to Technical Account</i>
<i>Balance at 31st December</i>

2004 £m
0.3
(0.1)
(0.1)
0.1

c) Financial Services Compensation Scheme

It is currently anticipated that a levy will be raised in respect of 2004 and a provision of 0.8% (0.8% 2003) of Gross Premiums Written has been made.

<i>Balance at 1st January</i>
<i>Payments</i>
<i>Charge to Technical Account</i>
<i>Balance at 31st December</i>

2004 £m
0.4
-
0.1
0.5

21 Contingent Liabilities

There are no contingent liabilities.

22 Capital Expenditure

There were no capital commitments at 31st December, 2004 not provided for in these financial statements (2003 £nil).

23 Cash Flow Statement

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

	2004 £m	2003 £m
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<i>Profit before tax</i>	36.5	40.3
<i>Decrease in debtors, prepayments and accrued income</i>	0.4	43.0
<i>(Decrease) in creditors, accruals and deferred income</i>	(0.2)	(3.6)
<i>(Decrease) in technical provisions</i>	(31.4)	(80.2)
<i>Realised and unrealised investment losses/(gains)</i>	(0.4)	(3.8)

<i>Net cash Inflow/(Outflow) from operating activities</i>	4.9	(4.3)
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b) Movement in portfolio investments net of financing

<i>Increase/(Decrease) in cash holdings</i>	0.6	(1.4)
<i>Cash (Outflow)/Inflow on portfolio investments</i>	(22.8)	(117.6)
<i>Movement arising from cash flows</i>	(22.2)	(119.0)
<i>Changes in market value and currencies</i>	0.4	3.8
<i>Total movement in portfolio investments, net of financing</i>	(21.8)	(115.2)
<i>Portfolio investments, net of financing at 1st January</i>	245.1	360.3
<i>Portfolio investments, net of financing at 31st December</i>	223.3	245.1

c) Cash flows invested in portfolio investments

<i>Purchase of debt securities and other fixed income securities</i>	11.5	19.7
<i>Purchase of land and buildings</i>	-	0.6
<i>Sale of shares and other variable yield securities</i>	-	(130.4)
<i>Sales of debt securities and other fixed income securities</i>	(15.0)	(19.7)
<i>Sale of land and buildings</i>	-	(16.7)
<i>Net Increase in deposits with credit institutions</i>	(19.3)	28.9
<i>Net cash (Outflow) on portfolio investments</i>	(22.8)	(117.6)

d) Movement in cash, portfolio investments net of financing

	As at 1st January, 2004 £m	Cash flow £m	Changes to Market values & currencies £m	As at 31st December, 2004 £m
<i>Cash at bank and in hand</i>	0.8	0.6	-	1.4
<i>Debt securities and other fixed income securities</i>	163.1	(3.5)	0.4	160.0
<i>Land and buildings</i>	-	-	-	-
<i>Deposits with credit institutions</i>	81.2	(19.3)	-	61.9
<i>Total</i>	245.1	(22.2)	0.4	223.3

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 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 which have been prepared in accordance with the accounting policies set out in note 1.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. 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 in to 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 if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion

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

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

Equalisation reserves

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amount set aside at 31 December 2004, and the effect of the movement in those reserves during the year on the general business technical result and profit before tax, are disclosed in notes 1c) and note 18 respectively.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2004 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Bristol, 24th March 2005