FM INSURANCE COMPANY LTD – NEW ZEALA

10059501480

REPORTS AND FINANCIAL STATEMEN

FOR THE SIX MONTHS ENDED 31 DECEMB

CONTENTS

DIRECTORS' REPORT

The Directors present their annual report together with the audited Financial Statements for the six months ended 31 December 2009.

RESULT: The loss for the period after tax was $(377,063)

DIVIDEND: The Directors recommend that no dividend be paid.

AUDITORS: In terms of the Companies Act 1993, Ernst & Young are to continue in office as the Branch's auditors.

APPROPRIATIONS:

Surplus after tax for the nine months	(377,063)
Less: Net Repatriations, Unrealised Gain / (Loss) on Investments	Nil
Accumulated surplus brought forward	Nil
	(377,063)

ACTIVITIES: The principal activities during the year were those of insurance underwriting and investment.

DIRECTORS INTERESTS IN TRANSACTIONS:

Directors have no interests to declare in the transactions of the six months ended 31 December 2009.

ON BEHALF OF THE BOARD

Ian R Berg Director

Director

11th NOVEMBER 2010

Ernst & Young Building
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
www.ey.com/au

Independent Auditor's Report to the Shareholders of FM Insurance Company Limited

Report on the Financial Statements

We have audited the financial statements of the New Zealand branch of FM Insurance Company Limited on pages 1 to 18, which comprise the statement of financial position of the New Zealand branch of FM Insurance Company Limited as at 31 December 2009, and the statement of comprehensive income, and statement of changes in head office account for the six month period then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with Section 19(3) of the *Financial Reporting Act 1993*. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the New Zealand branch of the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of the financial statements, in accordance with generally accepted accounting practice in New Zealand, and that give a true and fair view of the matters to which they relate and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected, depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the New Zealand branch of the company's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the New Zealand branch of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Other than in our capacity as auditor we have no relationship with, or interest in the New Zealand branch of the company.

Partners and employees of our firm may deal with the Company on normal terms within the ordinary course of trading activities of the business of the Company.

Opinion

In our opinion, the financial statements on pages 1 to 18:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of the New Zealand branch of the company as at 31 December 2009 and the financial performance for the six months then ended.

Ernst & Young

Report on Other Legal and Regulatory Requirements

We have obtained all the information and explanations we have required.

In our opinion proper accounting records have been kept by the New Zealand branch of the company as far as appears from our examination of those records.

Ernst & Young

Ernst & Young
11 November 2010
Melbourne

FM INSURANCE COMPANY LTD - NEW ZEALAND BRANCH

STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

	Notes	2009 $
Gross written premiums		11,399,750
Movements in unearned premiums		(6,590,134)
Gross earned premium		**4,809,616**
Reinsurance expense		(3,367,487)
Net premium revenue		**1,442,129**
Claims expense	3	(1,419,971)
Reinsurance recoveries		180,583
Net claims expense		**(1,239,388)**
Acquisition costs		**Nil**
Underwriting result		**202,741**
Operating expenses	4	(774,534)
Investment income	5	33,132
Net surplus / (loss) before tax		**(538,661)**
Taxation expense	6	161,598
Profit / (loss) and Total comprehensive income for the nine months		**(377,063)**
Total comprehensive income attributable to parent		**(377,063)**

The attached notes on pages 8 to 18 form part of and should be read in conjunction with these financial statements.

FM INSURANCE COMPANY LTD - NEW ZEALAND BRANCH

STATEMENT OF CHANGES IN HEAD OFFICE ACCOUNT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

	2009
	$
Deemed Equity as at 1 July	NIL
Profit/(Loss) for the year	(377,063)
Deemed Equity as at 31 December	(377,063)

The attached notes on pages 8 to 18 form part of and should be read in conjunction with these financial statements, together with the Auditors' Report on page 3.

FM INSURANCE COMPANY LTD - NEW ZEALAND BRANCH

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2009

	Notes	2009 $
Current Assets		
Bank Account		449,828
Insurance Receivables	7	2,051,547
Unearned Premium R/I		4,612,338
Outstanding Claims R/I		103,057
Tax Assets		161,598
Total Current Assets		7,378,368
Non Current Assets		
Investments	8	523,052
Total Non-Current Assets		523,052
TOTAL ASSETS		7,901,420
Current Liabilities		
Insurance Payables	9	(785,215)
Outstanding Claims	12	(903,134)
Unearned Premium		(6,590,134)
Tax Liabilities		Nil
Total Current Liabilities		(8,278,483)
TOTAL LIABILITIES		(8,278,483)
NET ASSETS		(377,063)
DEEMED EQUITY : HEAD OFFICE ACCOUNT		(377,063)

The attached notes on pages 8 to 18 form part of and should to be read in conjunction with these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared for the New Zealand branch of FM Insurance Company Ltd, which is incorporated in the United Kingdom.

Corporate Information
FM Insurance Company Ltd incorporated in the United Kingdom, is the Branch's immediate parent company. Factory Mutual Insurance Company incorporated in United States of America, is the Branch's ultimate holding company.

Financial Reporting Framework
The financial report has been prepared in accordance with the Companies Act 1993 and the Financial Reporting Act 1993.

Statement of Compliance
The financial report has been prepared in accordance with NZ GAAP. It complies with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate for profit oriented entities that qualify for and apply differential reporting concessions. The branch is a profit oriented entity.

Differential Reporting
The Branch qualifies for differential reporting exemptions as described in the Framework for Differential Reporting issued by the Institute of Chartered Accountants New Zealand because the Branch is not publicly accountable and there is no separation between the shareholders and the governing body. The Branch has elected to apply all available exemptions except those available under IAS 12 Income Taxes and IAS 18 which allows revenue and expenses to be recognised inclusive of goods and services tax.

Registered Office
C/- KPMG Centre
18 Viaduct Harbour Avenue
Auckland 1010

Insurance Contract
All of the insurance products offered or utilised by the Branch meet the definition of insurance contracts under the New Zealand equivalents to International Financial Reporting Standards, and are accounted for and reported in accordance with these standards.
These products do not contain embedded derivatives or deposits that are required to be unbundled.

Basis of Preparation
The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and the requirements of the Companies Act 1993 and the Financial Reporting Act 1993 on a historical cost basis.

The financial statements have been prepared on a going concern basis.

The financial statements are presented in New Zealand dollars.

The following particular accounting policies have been applied:

a) Premium Revenue

Premium revenue for insurance comprises amounts charged to policyholders. The earned portion of premium received and receivable, including unclosed business, is recognised as revenue. The pattern of recognition of income over the policy or indemnity periods is based on time, which closely approximates the pattern of risks underwritten. Unearned premium is determined by apportioning the premiums written over the period of risk from the date of attachment of risk.

b) Unearned Premium

Provisions in respect of the proportion of premiums relating to risk in future periods of account are calculated on the straight-line basis over the period of risk.

c) Deferred Acquisition Expenses

Acquisition expenses, principally comprising commissions and fees incurred on insurance contracts, are deferred and expensed over the period in which the related premiums are earned. Deferred acquisition costs are measured at the lower of cost and recoverable amount.

d) Outstanding Claims

The Outstanding Claims provision comprises the estimated costs of claims incurred including indirect claims settlement costs, whether reported or not, and claims not settled at balance date. Reported claims have been assessed in the light of the information available at balance date and after taking account of present value of the expected future payments with an additional risk margin to allow for inherent uncertainty in future settlements. The provision for claims incurred but not reported has been assessed having regard for the Branch's claim performance. The expected future payments include claims handling costs which are to be incurred in settling the insured claims.

e) Taxation

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Branch expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

f) Investments

Both investments and deposits have been designated at fair value through profit and loss as they are held to match the average duration of a corresponding insurance liability as assets backing general insurance liabilities. Fair value of government stock is established by reference to quoted bid prices. Interest income is recognised in the Statement of Comprehensive Income using the effective interest rate method.

g) Investment Income

Interest is accounted for on an accrual basis.

h) Foreign Currency Translation

(I) Functional and presentation currency
Both the functional currency and presentation currency of FM Insurance Company Ltd – New Zealand Branch is New Zealand dollars ($).

(ii) Transactions & balances
Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.
Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

i) Claims

Reported claims have been assessed in the light of the information available at balance date and after taking account of expected trends in future settlements.

j) Trade and Other Receivables

Trade receivables, which generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 90 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

k) Trade and Other Payables

Trade and other payables are recognised when the Branch becomes obliged to make future payments resulting from the purchase of goods and services. Payables are recognised initially at fair value net of transaction costs. Subsequently payables are measured at amortised cost using the effective interest rate method.

l) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short term highly liquid investments with original maturities of three months or less.

n) Impairment of assets

At each reporting date, the Branch reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Branch estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

o) s.211 Disclosures

No disclosure has been made pursuant to Section 211(1) (a) and (e) to (j) of the Companies Act 1993 following a decision by the shareholders in accordance with Section 211 (3) of the Act.

p) Significant Accounting Judgements, Estimates & Assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

2. RELATED PARTY TRANSACTIONS

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year (for information regarding outstanding balances on related party trade receivables and payables at year-end, refer to notes 7 and 9 respectively):

		R/I Premium to Related Parties	R/I Receivable from Related Parties	Other Transactions with related parties
		$	$	$
FM Insurance Company (Australia) Ltd - expenses paid for on behalf of the NZ branch	**2009**	-	-	**1,351,385**
Factory Mutual Insurance Company Ltd - Treaty Reinsurer of the NZ branch	**2009**	4,628,298		-

Unless otherwise stated, related parties are members of the Factory Mutual Insurance Company Ltd group.

Terms and conditions of transactions with related parties
Reinsurance transactions to/ from related parties are made in arm's length transactions both at normal market prices and on normal commercial terms.

Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash.

3. CLAIMS INCURRED

Current year claims relate to risks borne in the current financial year. Prior year claims relate to a reassessment of the risks borne in all previous financial periods.

	2009
	$
Current Year	1,419,971
Prior Years	-
	1,419,971

4. OPERATING AND ADMINISTRATION EXPENSES

Operating and administration expenses comprise:

	2009 $
Allocation of Expenses from the Head Office and Australian Branches	1,351,385
Revaluation of Government Bond	20,040
Commission on Reinsurance	(596,891)
	774,534

Auditor Remuneration:

	2009 $
Audit Fee	20,000
Other Services	-
Tax Compliance	-
	20,000

5. INVESTMENT INCOME

	2009 $
Investment Income comprises:	
Interest on Government Stock	33,132
Other Interest	-
	33,132

6. CURRENT YEAR'S TAXATION

	2009 $
Taxation Expense:	
Profit / (Loss) before Taxation	(538,661)
Current tax expense @ 30%	(161,598)
Adjustments recognised in the current period in relation to the current tax of prior periods	-
Total Tax Expense	(161,598)
Taxation Expense comprises:	
Current tax expense	(161,598)
Adjustments to current tax relating to prior years	-
Deferred tax expense	-
	(161,598)
Current Tax Assets and Liabilities:	
Tax Receivable	161,598
Tax Payable	-
Current Tax Asset / (Liability)	161,598
Deferred Tax balances	
Temporary Differences:	
Provision for Doubtful Debts	-
Deferred Acquisition Costs	-
UOMI & Fair Value gain on bonds	-
Deferred Tax Asset / (Liability)	161,598

7. TRADE AND OTHER RECEIVABLES

		2009 $
Investment Income Receivable		-
Premium Debtors		1,974,021
Claims R/I Receivable		77,526
Related Party Receivable	2	-
		2,051,547

Related party receivable:
All intercompany balances are with FM Insurance Company Ltd and are due and payable on demand. No interest rates apply to the outstanding amounts.

8. INVESTMENTS

	2009 $
Current	
Short Term Deposit	-
Non Current	
Government Stock	523,040
Total Investments	523,040

9. TRADE AND OTHER PAYABLES

		2009 $
Reinsurance Creditors		(785,215)
Related Party Payables	2	-
		(785,215)

Related party payables:
All intercompany balances are with FM Insurance Company Ltd and are due and payable on demand. No interest rates apply to the outstanding amounts.

10. FINANCIAL INSTRUMENTS

a) Categories of Financial instruments

		2009 $
Cash and cash equivalents		449,828
Loans and receivables	7	2,051,547
Payables	9	(785,215)

Financial assets carried at fair value through profit or loss have been designated as such upon initial recognition.

b) Foreign Exchange

Monetary assets and liabilities denominated in foreign currencies are translated at exchange rate ruling at the end of the financial year. Non-monetary assets are converted at historical rates. Transactions in foreign currencies are recorded at average rates. Exchange differences arising from transactions are taken to the profit and loss account.

c) Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the branch.

The Branch does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The maximum exposure to credit risk is the amounts shown in the balance sheet and notes. The maximum credit risk to the Branch is the carrying value of the assets. The Branch does not have any concentration of credit exposure.

d) Liquidity Risk

Ultimate responsibility for liquidity risk management rests with the board of directors, who has built an appropriate liquidity risk management framework for the management of the Branch's short, medium and long term funding and liquidity management requirements. The Branch manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

e) Interest Rate Risk

The Branch is exposed to interest rate risk in that future interest rates movements will affect cash flows:

	Weighted Average %	Total $	Within 1 Year $	Between 1-2 Years $	Between 2-3 Years $	Between 3-4 Years $	Between 4-5+ Years $
2009							
Bank	0%	449,828	449,828	-	-	-	-
Government Securities	6.5%	523,052	-	-	-	523,052	-

f) Fair Value of Financial Instruments

The carrying value of all financial assets and liabilities approximate to their fair value.

11. CAPITAL COMMITMENTS

As at 31 December 2009 there were no capital commitments.

12. CLAIMS PROVISIONS

Estimate of Expected Future Payments for Claims Reported including:

	2009 $	2009 $
	Gross	Net
Case Estimates	753,944	661,367
Discount	(50,514)	(44,311)
Loss Adjustment Expenses	36,039	31,614
Claims Administration Expenses	56,244	56,244
Risk Margin	107,421	95,163
	903,134	800,077

CLAIMS RESERVE	**2009**
	$
At Beginning of the Period	Nil
Claims Incurred	(1,419,971)
Claims Settled	516,837
At End of Year	(903,134)

13. UNEARNED PREMIUM RESERVE

	2009
	$
At Beginning of Year	Nil
Premium Earned	4,809,616
Recognised in Income Statement	(11,399,750)
At End of Year	(6,590,134)

14. LIABILITY ADEQUACY TEST

A liability adequacy test was carried out on the overall FM Insurance Company Ltd insurance portfolio in the current year in accordance with NZ IFRS 4.

The liability adequacy test identified surpluses, therefore there was no write down of any asset balances.

15. INSURER FINANCIAL STRENGTH RATING

FM Insurance Company Ltd has a financial strength rating of A+ Superior issued by A M Best.

16. EQUITY RETAINED FOR THE PURPOSES OF FINANCIAL SOUNDNESS

The branch retains a level of equity and retained reserves which enable it to maintain an adequate solvency margin for ongoing ability to pay clients. These financial statements relate to a branch of an overseas company. Its assets are available to support the liabilities of the company outside of New Zealand.

17. CONTINGENT LIABILITIES

As at 31 December 2009, there were no contingent liabilities existing at balance date not otherwise provided for in these financial statements.

18. SUBSEQUENT EVENTS

No event has arisen since 31 December 2009 which has significantly affected, or may significantly affect, the operations of the branch in future financial years, the results of those operations, or the state of affairs of the company in future financial years.

19. OPERATING LEASE OBLIGATIONS

As at 31 December 2009, the Branch had no obligations payable after balance date on non-cancellable operating leases.

20. FINANCE LEASE LIABILITY

As at 31 December 2009, the Branch had no obligations payable after balance date on finance leases.

FM Insurance Company Limited

Consolidated financial statements for the year ended 31 December 2009

Registered number: 755780

CERTIFIED
TRUE COPY

Amy Kelly
AMY KELLY
COMPANY SECRETARY

Regulated by the Financial Services Authority

FM Insurance Company Limited

Consolidated financial statements for the year ended 31 December 2009

Contents

Directors' report for the year ended 31 December 2009

The directors present their annual financial statements for the year ended 31 December 2009.

Results and dividends

The results of the group's operations for the financial year are set out on pages 8 and 9 and the financial position of the group at the end of the financial year is set out on pages 10 and 11.

The directors do not recommend the payment of a dividend (2008: £Nil).

The profit for the year retained in the group is £65,966,000 (2008 loss: £34,935,000).

Principal activities and review of the business

The Group's principal activities during the year continued to be the underwriting of property insurance risks and the provision of related engineering and loss prevention services to large and medium sized clients of the UK and various international branches. The Group is wholly owned by, and places reinsurance with, Factory Mutual Insurance Company located in Johnston, Rhode Island, USA (the "Parent").

Gross premiums written increased to £769,584,000 from £629,592,000 (22.2%) during the year. The increase was mainly due to exchange movements during the year, in particular the strengthening of the Euro and the Dollar against Sterling.

The Group made a post tax profit of £65,966,000 during the year. There were a lower number of larger value claims which contributed to a net loss ratio of 52.9% (2008: 98.3%). The expense ratio (net of other income) was 32.7% (2008: 3.2%), including a foreign exchange loss of £22,026,000 (2008: gain of £91,143,000). Realised and unrealised gains on investments amounted to £66,904,000 (2008: loss of £59,714,000) as a result of the general movements in the stock markets.

The profit for the year and other movements described in the Statement of Total Recognised Gains and Losses resulted in an overall increase in shareholder's funds of £77,541,000, resulting in total shareholder's funds of £379,835,000 as at 31 December 2009.

A new Switzerland insurance branch of FM Insurance Company Limited received its licence on 17 December 2009. A new Labuan branch of FM Insurance Company Limited was registered on 9 September 2009 and received its reinsurance licence effective 1 January 2010.

A subsidiary of FM Insurance Company Limited, FM do Brasil Servicos de Prevencao de Perdas Limited, was sold at book value during the year to FM Global Services LLC with an effective date of 31 May 2009.

The current ratings of the Group are AA (Very Strong) from Fitch Ratings and A+ (Superior) from A.M. Best.

Principal risks and uncertainties

The Group monitors various risks throughout its international operations including insurance risk, operational risk, credit risk and market risk on an ongoing basis. The principal risks facing the Group are discussed and reviewed regularly at management meetings and meetings of the Board of Directors.

Insurance risk is limited through strict underwriting disciplines, and reinsurance arrangements which limit the maximum possible loss to the Group.

Directors' report
for the year ended 31 December 2009 (continued)

Principal risks and uncertainties (continued)

The Group invests in US and Australian government bonds, US equities and with highly-rated banks. Reinsurance is placed with highly rated counterparties.

Operational risk is monitored through the risk register review process. As risks are identified they are included on the risk register, assigned an owner and a score taking into account likelihood, impact, controls and mitigation. They are reviewed and discussed regularly at Risk Management Committee meetings and the Risk Management Committee findings are discussed with the Board.

The Group pro-actively engages in matching the currency denominations of assets to the currencies of known liabilities.

The Group does not consider liquidity and cash-flow to be a major risk given the relatively short-term nature of the investments and the availability of cash from the parent company.

Future developments

The Group anticipate that market conditions will be such during 2010 that premiums will decrease approximately 4% from 2009 premium levels. The Group expects a relatively consistent geographical mix to 2009, and to maintain profitability during 2010.

Going concern

The directors believe the Group is able to manage their business risks successfully despite the current uncertain economic outlook. Furthermore, the directors have a reasonable expectation that the Group has adequate resources to continue in existence for the foreseeable future. As such, they continue to adopt the going concern basis in preparing the annual financial statements.

Directors and employees

The directors who held office during the year and to the date of this report were as follows:

Kenneth W. Davey	Managing Director
Carol Barton	
Ian R. Berg	
Dennis J. Bessant	
Antonius R. H. Bosman	
Jeffrey Burchill	
Omar F. Hameed	
Michael Lebovitz	(Appointed 19 November 2009)
Shivan S. Subramaniam	
Stefano Tranquillo	
Kevin S. Ingram	(Appointed 12 February 2010)
Ciaran O'Donnell	(Resigned 31 December 2009)

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

Details of employees are set out in note 9 to the financial statements.

Political and charitable contributions

The group made no political contributions during the year. Charitable donations amounted to £34,153 (2008: £41,676).

Directors' report
for the year ended 31 December 2009 (continued)

Employee note

It is the group's policy to treat all employees in the same way, regardless of their sex, sexual orientation, religion or belief, marital status, age, race, ethnic origin or disability, and is stated in our Equal Opportunities Policy. The policy provides for consideration of reasonable adjustments the group might take in the event that an employee becomes disabled, which would include any training that may be needed. Our performance management process includes discussion and agreement with respect to training for career development purposes for all employees, irrespective of sex, sexual orientation, religion or belief, marital status, age, race, ethnic origin or disability.

Insurance of directors

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

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the group's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Statement of Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the group and the company and the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

FM Insurance Company Limited
Registered number: 755780

Directors' report for the year ended 31 December 2009 (continued)

Re-appointment of auditors

Pursuant to a shareholders' resolution the Company is not obliged to reappoint its auditor annually and Ernst & Young LLP will therefore continue in office.

On behalf of the board

K. S. Ingram

Kevin S. Ingram
Finance Director

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF FM INSURANCE COMPANY LIMITED

We have audited the financial statements of FM Insurance Company Limited for the year ended 31 December 2009 which comprise the Consolidated Profit and Loss Account, Consolidated Statement of Total Recognised Gains and Losses, Consolidated Balance Sheet, Company Balance Sheet and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Equalisation provision

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain an equalisation provision. The nature of the equalisation provision, the amount set aside at 31 December 2009, and the effect of the movement in the provision during the year on shareholders' funds, the technical account – general business and the profit or loss on ordinary activities before tax, is disclosed in note 21.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF FM INSURANCE COMPANY LIMITED (continued)

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2009 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

John Headley (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

30 March 2010

FM Insurance Company Limited
Registered number: 755780

Consolidated profit and loss account: technical account – general business for the year ended 31 December 2009

	Notes	2009 £000	2009 £000	2008 £000	2008 £000
Gross premiums written	3	**769,584**		629,592	
Outward reinsurance premiums		**(588,436)**		(496,917)	
			181,148		132,675
Change in the gross provision for unearned premiums	21	**5,114**		(7,270)	
Change in the provision for unearned premiums, reinsurers' share	21	**(12,205)**		6,706	
			(7,091)		(564)
Earned premiums, net of reinsurance			**174,057**		132,111
Other technical income			**8,474**		5,939
Claims paid					
Gross amount		**(336,873)**		(451,072)	
Reinsurers' share		**228,091**		307,852	
		(108,782)		(143,220)	
Change in the provision for claims					
Gross amount	21	**65,588**		67,843	
Reinsurers' share	21	**(48,963)**		(54,481)	
		16,625		13,362	
Claims incurred, net of reinsurance			**(92,157)**		(129,858)
Net operating expenses	5		**(65,391)**		(10,120)
Change in equalisation provision	21		**(5,475)**		7,760
Balance on the technical account - general business			**19,508**		5,832

FM Insurance Company Limited
Registered number: 755780

Consolidated profit and loss account: non-technical account for the year ended 31 December 2009

	Note	2009	2008
		£000	£000
Balance on the technical account - general business		19,508	5,832
Other finance income	24	294	1,087
Investment income	4	13,577	17,186
Interest expense	4	(8)	(23)
Unrealised gains/(losses) on investments	4	62,213	(60,067)
Profit/(Loss) on ordinary activities before taxation	6	95,584	(35,985)
Tax on profit/loss on ordinary activities	10	(29,618)	1,050
Retained profit/(loss) for the financial year transferred to reserves		65,966	(34,935)

The movements in the year are all in respect of continuing operations.

Consolidated statement of total recognised gains and losses for the year ended 31 December 2009

	Note	2009	2008
		£000	£000
Profit/(Loss) for the financial year		65,966	(34,935)
Actuarial gain/(loss) (FRS17)	24	1,320	(17,774)
Deferred tax on actuarial (gain)/loss		(370)	4,977
Net currency differences on retranslation of net investments in foreign branches		10,625	2,979
Total recognised profit/(loss) relating to the year		77,541	(44,753)

FM Insurance Company Limited
Registered number: 755780

Consolidated balance sheet at 31 December 2009

		2009		2008	
		£000	£000	£000	£000
	Note				
Assets					
Investments					
Other financial investments	*12*	344,326		270,157	
			344,326		270,157
Reinsurers' share of technical provisions					
Provision for unearned premiums	*21*	181,753		188,580	
Claims outstanding	*21*	225,145		265,055	
			406,898		453,635
Debtors					
Debtors arising out of direct insurance operations	*13*	83,883		94,291	
Debtors arising out of reinsurance operations		18,195		23,010	
Other debtors:	*14*				
Amounts falling due within one year		10,181		6,440	
Amounts falling due after one year		1,424		15,713	
			113,683		139,454
Other assets					
Tangible fixed assets	*16*	6,459		7,377	
Cash at bank and in hand	*17*	207,850		181,166	
			214,309		188,543
Prepayments and accrued income					
Accrued interest and rent		1,354		1,133	
Deferred acquisition costs	*21*	5,666		5,497	
Other prepayments and accrued income		337		563	
			7,357		7,193
Total assets excluding net pension asset			1,086,573		1,058,982
Net pension asset	*24*		4,433		—
Total assets			1,091,006		1,058,982

FM Insurance Company Limited
Registered number: 755780

Consolidated balance sheet
at 31 December 2009

	Note	2009 £000	2009 £000	2008 £000	2008 £000
Liabilities					
Capital and reserves					
Called up share capital	*18*	**325,000**		325,000	
Share premium account	*19*	**978**		978	
Profit and loss account	*19*	**53,857**		(23,684)	
Shareholder's funds attributable to equity interests			**379,835**		302,294
Technical provisions					
Provision for unearned premiums	*21*	**246,590**		244,714	
Claims outstanding	*21*	**340,034**		391,214	
Equalisation provision	*21*	**7,024**		1,549	
			593,648		637,477
Creditors					
Creditors arising out of direct insurance operations		**60,044**		54,601	
Other creditors including taxation and social security	*22*	**33,110**		35,287	
			93,154		89,888
Accruals and deferred income	*23*		**24,369**		23,376
Total liabilities excluding net pension liability			**1,091,006**		1,053,035
Net pension liability	*24*		**—**		5,947
Total liabilities			**1,091,006**		1,058,982

These financial statements were approved by the board of directors on 29 March 2010 and were signed on its behalf by:

K.S. Ingram

Kevin S. Ingram
Finance Director

FM Insurance Company Limited

Registered number: 755780

Company balance sheet at 31 December 2009

	Note	2009 £000	2009 £000	2008 £000	2008 £000
Assets					
Investments					
Other financial investments	*12*	344,326		269,808	
Investments in subsidiary undertakings	*11*	51		813	
			344,377		270,621
Reinsurers' share of technical provisions					
Provision for unearned premiums	*21*	181,753		188,580	
Claims outstanding	*21*	225,145		265,055	
			406,898		453,635
Debtors					
Debtors arising out of direct insurance operations	*13*	83,883		94,291	
Debtors arising out of reinsurance operations		18,195		23,010	
Other debtors:	*14*				
Amounts falling due within one year		9,702		5,097	
Amounts falling due after one year		1,298		15,581	
			113,078		137,979
Other assets					
Tangible fixed assets	*16*	6,220		6,693	
Cash at bank and in hand	*17*	205,473		178,781	
			211,693		185,474
Prepayments and accrued income					
Accrued interest and rent		1,347		1,133	
Deferred acquisition costs	*21*	5,666		5,497	
Other prepayments and accrued income		327		528	
			7,340		7,158
Total assets excluding net pension asset			1,083,386		1,054,867
Net pension asset	24		4,433		—
Total assets			1,087,819		1,054,867

FM Insurance Company Limited
Registered number: 755780

Company balance sheet at 31 December 2009

	Note	2009 £000	2009 £000	2008 £000	2008 £000
Liabilities					
Capital and reserves					
Called up share capital	18	325,000		325,000	
Share premium account	19	978		978	
Profit and loss account	19	50,944		(25,677)	
Shareholder's funds attributable to equity interests			376,922		300,301
Technical provisions					
Provision for unearned premiums	21	246,590		244,714	
Claims outstanding	21	340,034		391,214	
Equalisation provision	21	7,024		1,549	
			593,648		637,477
Creditors					
Creditors arising out of direct insurance operations		60,044		54,601	
Other creditors including taxation and social security	22	33,548		34,651	
			93,592		89,252
Accruals and deferred income	23		23,657		21,890
Total liabilities excluding net pension liability			1,087,819		1,048,920
Net pension liability	24		—		5,947
Total liabilities			1,087,819		1,054,867

These financial statements were approved by the board of directors on 29 March 2010 and were signed on its behalf by:

K.S. [signature]

Kevin S. Ingram
Finance Director

1 Basis of preparation

The financial statements have been prepared in accordance with the accounting policies set out below and comply with the special provisions relating to insurance companies in Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulation 2008, made under Companies Act 2006. The recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2005 as amended in December 2006 have been adopted. The financial statements are prepared in accordance with the applicable UK accounting standards.

Consolidated financial statements have been prepared. These financial statements therefore present information about the company and its subsidiaries as set out in note 11.

No profit and loss account is presented for the company as permitted by section 408 of the Companies Act 2006.

The Group has taken advantage of the exemption under FRS 8 Related Party Disclosures not to disclose transactions with companies in the Factory Mutual Insurance Company (FMIC) group as it is a wholly owned subsidiary of FMIC which publishes consolidated financial statements. The group has taken advantage of the exemption under FRS 1 Cash Flow Statements (Revised) not to prepare a cash flow statement.

2 Accounting policies

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

Premiums

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

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

Unearned premiums

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

1 Basis of preparation

The financial statements have been prepared in accordance with the accounting policies set out below and comply with the special provisions relating to insurance companies in Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulation 2008, made under Companies Act 2006. The recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2005 as amended in December 2006 have been adopted. The financial statements are prepared in accordance with the applicable UK accounting standards.

Consolidated financial statements have been prepared. These financial statements therefore present information about the company and its subsidiaries as set out in note 11.

No profit and loss account is presented for the company as permitted by section 408 of the Companies Act 2006.

The Group has taken advantage of the exemption under FRS 8 Related Party Disclosures not to disclose transactions with companies in the Factory Mutual Insurance Company (FMIC) group as it is a wholly owned subsidiary of FMIC which publishes consolidated financial statements. The group has taken advantage of the exemption under FRS 1 Cash Flow Statements (Revised) not to prepare a cash flow statement.

2 Accounting policies

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

Premiums

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

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

Unearned premiums

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

2 Accounting policies (continued)

Acquisition costs

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

Claims

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

Claims outstanding

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

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

Investment income and gains on realisation of investments

Investment income is accounted for on an accruals basis. Realised gains or losses represent the difference between net sales proceeds and purchase price. All realised gains and losses are taken to the non-technical account.

Unrealised gains and losses on investments

Unrealised gains and losses represent the difference between the valuation of investments at the balance sheet date and their purchase price or, if they have been previously revalued, 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. All unrealised gains and losses are taken to the non-technical account in the profit and loss account.

Equalisation provision

The equalisation provision is required to be maintained by INSPRU 1.4. The provision is established in addition to the provisions required to meet the estimated costs of settling outstanding claims.

2 Accounting policies (continued)

Investments

All investments are stated at their current value. Listed investments are stated at mid market value. Investments in subsidiary undertakings are held at cost. Investments are reviewed at each reporting date to assess whether there are any circumstances that might indicate that they are impaired. If such circumstances exist, impairment testing is performed and any resulting impairment losses are charged to the income statement and the carrying value adjusted to the recoverable amount.

Fixed assets

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

Office equipment	20% of cost per annum
Office furniture	10% of cost per annum
Computer equipment	33.3% or 50% of cost per annum
Motor vehicles	25% of net book value per annum

Leases

No leases entail taking substantially all of the risks and rewards of ownership of an asset. Therefore all leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are retranslated at exchange rates ruling at the end of the financial year. Non-monetary assets are converted at historical rates. Transactions in foreign currencies are recorded at average rates. Exchange differences arising from transactions are taken to the profit and loss account.

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

Pensions

The Group operates a number of defined benefit pension schemes. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and are discounted at the current rate of return of a high quality corporate bond of equivalent term and currency to the liabilities. The increase in the present value of the liabilities of the Group's defined benefit pension schemes expected to arise from employee service in the period is charged to the profit and loss account. The expected return on scheme's assets and the increase during the year in the present value of the scheme's liabilities arising from the passage of time are included in the profit and loss account. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

Any pension scheme surplus, to the extent it is considered recoverable, or deficit is recognised in full and presented on the balance sheet.

2 Accounting policies (continued)

Taxation

Current tax expense is charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year. To the extent that losses of an individual UK company are not offset in any one year, they can be carried back for one year or carried forward indefinitely to be offset against profits arising from the same company.

Deferred tax assets and liabilities are recognised in accordance with the provisions of FRS 19. The Company has chosen not to apply the option available of recognising such assets and liabilities on a discounted basis to reflect the time value of money. Except as set out in FRS 19, deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

The Group's UK subsidiaries each file separate tax returns. In accordance with UK tax legislation, where one domestic UK company is a 75 per cent owned subsidiary of another UK company or both are 75 per cent owned subsidiaries of a common parent, the companies are considered to be within the same UK tax group. For companies within the same tax group, trading profits and losses arising in the same accounting period may be offset for the purposes of determining current and deferred taxes.

Unexpired Risk Provision

Provision for unexpired risks is made where the estimated costs of future claims and related deferred acquisition costs are expected to exceed the unearned premium provision. In determining the need for an unexpired risk provision the different classes of business have been regarded as business that is managed together. Based on information available at the balance sheet date, before taking into account investment income but including previous claims experience, the Company has assessed that no provision is required.

3 Segmental information

Analysis of premiums, profit before taxation and net assets

	2009			2008		
	Gross premium written £000	Profit/(Loss) before taxation £000	Net assets £000	Gross premium written £000	Profit/(Loss) before taxation £000	Net assets £000
By geographical segment						
United Kingdom	398,231	85,615	314,824	340,064	(45,021)	254,633
Germany	80,133	(4,404)	(11,433)	71,792	5,573	(6,523)
France	80,166	2,769	18,542	66,683	5,065	15,662
Belgium	7,283	4,682	7,042	18,890	(618)	3,538
Sweden	53,635	(11,289)	(19,874)	45,599	(331)	(8,034)
Australia	109,185	15,435	71,810	67,763	6,100	46,642
Italy	10,733	3,215	1,791	12,792	(4,620)	(1,194)
Singapore	8,125	61	(733)	2,169	(823)	(782)
Hong Kong	3,336	804	(1,051)	311	(1,568)	(1,845)
Netherlands	18,757	(1,304)	(1,083)	3,529	258	197
Total	769,584	95,584	379,835	629,592	(35,985)	302,294

Subsidiaries are included in the United Kingdom segment. The regional offices are funded for their operational and capital requirements through inter-office accounts.

	2009			2008		
	Gross premium written £000	Profit before taxation £000	Net assets £000	Gross premium written £000	Loss before taxation £000	Net assets £000
By class of business:						
Direct	608,470	75,573	300,316	495,623	(28,328)	237,970
Assumed	161,114	20,011	79,519	133,969	(7,657)	64,324
Total	769,584	95,584	379,835	629,592	(35,985)	302,294

Analysis of gross written premiums

	2009 £000	2008 £000
Resulting from contracts concluded by the company:		
In the EU member state of its head office	398,231	340,064
In the other EU member states	250,706	219,285
In other countries	120,647	70,243
	769,584	629,592

3 Segmental information (continued)

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

				2009			
	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total	Net assets
	£000	£000	£000	£000	£000	£000	£000
Goods in transit	2,092	2,525	(1,136)	(394)	368	1,363	1,033
Commercial property	464,311	511,716	(130,164)	(87,427)	(288,211)	5,914	229,165
General liability	—	—	(1,286)	—	1,286	—	—
Consequential loss	142,067	154,965	(45,474)	(26,750)	(72,086)	10,655	70,118
Assumed	161,114	105,492	(93,225)	(30,337)	16,647	(1,423)	79,519
Total	769,584	774,698	(271,285)	(144,908)	(341,996)	16,509	379,835

				2008			
	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total	Net assets
	£000	£000	£000	£000	£000	£000	£000
Goods in transit	3,006	2,112	(1,720)	(188)	(2,514)	(2,310)	1,443
Commercial property	386,555	384,270	(150,382)	(24,224)	(234,571)	(24,907)	185,602
General liability	—	—	(2,247)	—	2,247	—	—
Consequential loss	106,062	105,833	(120,810)	(6,647)	21,091	(533)	50,925
Assumed	133,969	130,107	(108,070)	(8,396)	6,242	19,883	64,324
Total	629,592	622,322	(383,229)	(39,455)	(207,505)	(7,867)	302,294

4 Investment return and charges

	2009	2008
	£000	£000
Net income from investments	7,219	11,417
Net interest received from bank accounts and fixed deposits	1,667	5,416
Realised gain on investments	4,691	353
Investment income	13,577	17,186
Net interest payable	(8)	(23)
Unrealised gains/(losses) on investments	62,213	(60,067)
	75,782	(42,904)

5 Net operating expenses

	2009	2008
	£000	£000
Acquisition costs	24,796	32,757
Change in gross deferred acquisition costs	(288)	(160)
	24,508	32,597
Administrative expenses	120,400	6,858
Gross operating expenses	144,908	39,455
Reinsurance commissions	(81,364)	(31,223)
Change in deferred reinsurance commission	1,847	1,888
	65,391	10,120

A foreign exchange loss of £22,026,000 (2008: £91,143,000 gain) is included within administrative expenses.

6 Profit/(Loss) on ordinary activities before tax

	2009 £000	2008 £000
Profit/(Loss) on ordinary activities before tax is stated after charging the following:		
Loss/(gain) on foreign exchange	22,026	(91,143)
Profit on sale of fixed assets	(19)	(31)
Depreciation	2,125	2,104
Rentals under operating leases on land and buildings	7,843	7,991
Rentals under other operating leases	2,509	2,200
Auditors' remuneration	375	399

7 Auditors' remuneration

	2009 £000	2008 £000
The remuneration of the auditors is further analysed as follows:		
Audit of the financial statements – current year	168	172
– prior year	—	11
	168	183
Other fees to auditors		
Audits of subsidiaries and branches – current year	154	135
– prior year	12	27
Other services pursuant to legislation – current year	37	37
– prior year	—	3
Other services	4	14
	207	216
	375	399

8 Remuneration of directors

	2009	2008
	£000	£000
Directors' emoluments	1,138	1,126
Amounts payable under long term incentive scheme	328	347
	1,466	1,473

The aggregate of emoluments and amounts payable under long term incentive schemes of the highest paid director was £491,571 (2008: £482,695). This includes amounts receivable under long term incentive schemes of £190,179 (2008: £186,553).

The directors' emoluments and long term incentives disclosed above are in respect of payments made by FM Insurance Company Limited and the Parent, Factory Mutual Insurance Company, for qualifying director's services.

	2009	2008
Retirement benefits are accruing to the following number of directors under defined benefit schemes.	4	4

Three directors have outstanding car loans at 31 December 2009 (2008: Three). The car loans are interest free, no non payment is anticipated and payments are taken at source. The amounts outstanding are as follows:

As at 1 January 2009 the brought forward outstanding amount was £20,962 and as at 31 December 2009 the carried forward outstanding amount was £13,098.

As at 1 January 2009 the brought forward outstanding amount was £15,866 and as at 31 December 2009 the carried forward outstanding amount was £10,267.

As at 1 January 2009 the brought forward outstanding amount was £14,560 and as at 31 December 2009 the carried forward outstanding amount was £9,962.

9 Staff numbers and costs

The average number of employees of the group during the year ended 31 December 2009 was 1,160 (2008: 1,086) and can be categorised as follows:

	2009	2008
Engineering	574	533
Administration and Professional	323	321
Operations	148	116
Underwriting	115	116
	1,160	1,086

9 Staff numbers and costs (continued)

Staff costs consist of:

	2009	2008
	£000	£000
Wages and salaries	66,946	50,947
Social security costs	11,772	10,344
Other pension costs	7,329	6,746
	86,047	68,037

10 Tax on profit/(loss) on ordinary activities

(a) Tax on profit/(loss) on ordinary activities

The charge/(credit) to taxation is made up as follows:

	2009		2008	
	£000	£000	£000	£000
Current tax:				
UK corporation tax on profits/losses of the period	7,761		209	
Withholding tax relief	(334)		—	
Overseas relief	(7,147)		(209)	
Foreign tax	10,085		7,208	
	10,365		7,208	
Adjustments in respect of prior periods	930		1,480	
Total current tax		11,295		8,688
Deferred tax:				
Decelerated capital allowances	(155)		(101)	
Losses	12,190		(11,618)	
Timing difference in respect of pension	4,041		1,755	
Adjustment in respect of prior year	(1,372)		123	
Other timing differences	3,619		103	
Total deferred tax		18,323		(9,738)
Taxation on profit/(loss) on ordinary activities		29,618		(1,050)

10 Tax on profit on ordinary activities (continued)

(b) Tax included in the statement of total recognised gains and losses

The charge to taxation is made up as follows:

	2009	2008
	£000	£000
Deferred tax:		
Actuarial gain/(loss) on pension scheme	370	(4,977)
Total tax charge/(credit)	370	(4,977)

(c) Factors affecting tax charge for the period:

The tax assessed for the period is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2009	2008
	£000	£000
Profit/(Loss) on ordinary activities before tax	95,584	(35,985)
Profit/(Loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2008: 28.5%)	26,764	(10,256)
Effects of:		
Expenses not deductible for tax purposes	607	552
Short term timing differences	(7,420)	(1,772)
Tax payable on overseas profits	2,126	6,502
Unrelieved foreign tax	101	—
Withholding tax not relieved	377	351
Adjustments in respect of prior years	930	1,480
Losses utilised	(12,190)	11,827
Other	—	4
	11,295	8,688

The group earns income in many different countries and, on average, pays taxes at rates higher than the UK statutory rate. The overall impact of these higher taxes is subject to changes in enacted tax rates and the country mix of the group's income. However, it is not expected to change significantly in the short term.

All prior year losses have been utilised against current year profit. The group has no unrelieved UK tax losses available for offset against future taxable profits (note 15).

11 Company – Investment in subsidiary undertakings

	2009	2008
	£000	£000
At 1 January	813	778
Disposal of subsidiary	(762)	—
Exchange adjustments	—	35
At 31 December	51	813

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

Subsidiary	Country of Incorporation	Percentage ownership	Nature of business
FMI Services Venezuela CA	Venezuela	97%	Engineering Services
FM Engineering International Limited	UK	100%	Engineering Services
FM Engineering Consulting (Shanghai) Co., Limited (wholly owned by FM Engineering International Limited)	China	100%	Engineering Services

FM do Brasil Servicos de Prevencao de Perdas Limited was sold at book value during the year to FM Global Services LLC with an effective date of 31 May 2009.

12 Consolidated – Other financial investments

	2009	2008
	£000	£000
Market value		
Debt securities	72,257	104,853
Equities	267,573	165,304
Deposits with credit institutions	4,496	—
	344,326	270,157
Cost		
Debt securities	69,149	94,010
Equities	251,483	228,800
Deposits with credit institutions	4,496	—
	325,128	322,810

12 Other financial investments (continued)

The debt securities and equities are all listed investments.

Company – Other financial investments

	2009	2008
	£000	£000
Market value		
Debt securities	72,257	104,504
Equities	267,573	165,304
Deposits with credit institutions	4,496	—
	344,326	269,808
Cost		
Debt securities	69,149	93,686
Equities	251,483	228,800
Deposits with credit institutions	4,496	—
	325,128	322,486

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

	2009	2008
	£000	£000
Amounts owed by policyholders	83,883	94,291

14 Consolidated – Other debtors

	2009	2008
	£000	£000
Amounts falling due within one year:		
Corporation tax	6,114	1,480
Amounts owed by affiliated undertakings	1,914	1,468
Sundry debtors	2,153	3,492
	10,181	6,440
Amounts falling due after one year:		
Deferred tax asset (see note 15)	1,424	15,713

14 Other debtors (continued)

Company – Other debtors

	2009	2008
	£000	£000
Amounts falling due within one year:		
Corporation tax	6,040	1,351
Amounts owed by affiliated undertakings	2,450	1,159
Sundry debtors	1,212	2,587
	9,702	5,097
Amounts falling due after one year:		
Deferred tax asset (see note 15)	1,298	15,581

15 Consolidated – Deferred tax asset

	2009	2008
	£000	£000
Deferred tax asset at the start of the year	15,713	4,129
Movement during the year	(14,289)	11,584
Deferred tax asset at the end of the year	1,424	15,713

Deferred tax asset at the end of the year is made up of;	2009	2008
	£000	£000
Excess depreciation over capital allowances	592	444
Deferred tax on pension deficit	58	83
Deferred tax asset on losses	—	15,069
Other timing differences	774	117
Deferred tax asset at the end of the year	1,424	15,713

Company – Deferred tax asset

	2009	2008
	£000	£000
Deferred tax asset at the start of the year	15,581	4,101
Movement during the year	(14,283)	11,480
Deferred tax asset at the end of the year	1,298	15,581

Deferred tax asset at the end of the year is made up of;	2009	2008
	£000	£000
Excess depreciation over capital allowances	531	395
Deferred tax asset on losses	—	15,069
Other timing differences	767	117
Deferred tax asset at the end of the year	1,298	15,581

15 Deferred tax asset (continued)

The group has fully utilised tax losses against current year profit. A deferred tax asset is no longer recognised in relation to these losses.

Deferred tax has been calculated at 28% (2008: 28%).

16 Consolidated – Tangible fixed assets

	Equipment furniture and computers	Motor vehicles	Total
	£000	£000	£000
Cost			
At beginning of year	21,640	658	22,298
Additions	1,348	—	1,348
Disposals	(624)	(649)	(1,273)
Exchange adjustments	1,355	72	1,427
At end of year	23,719	81	23,800
Depreciation			
At beginning of year	14,574	347	14,921
Charge for year	2,086	39	2,125
Disposals	(404)	(347)	(751)
Exchange adjustments	1,024	22	1,046
At end of year	17,280	61	17,341
Net book value			
At 31 December 2009	6,439	20	6,459
At 31 December 2008	7,066	311	7,377

16 Tangible fixed assets (continued)

Company – Tangible fixed assets

	Equipment furniture and computers	Motor vehicles	Total
	£000	£000	£000
Cost			
At beginning of year	19,940	326	20,266
Additions	1,281	—	1,281
Disposals	(46)	(267)	(313)
Exchange adjustments	1,223	—	1,223
At end of year	22,398	59	22,457
Depreciation			
At beginning of year	13,325	248	13,573
Charge for year	1,923	4	1,927
Disposals	—	(204)	(204)
Exchange adjustments	941	—	941
At end of year	16,189	48	16,237
Net book value			
At 31 December 2009	6,209	11	6,220
At 31 December 2008	6,615	78	6,693

17 Collateral deposits

Included in cash at bank are amounts totalling £2,374,000 (2008: £1,819,000) relating to the Group and £2,253,000 (2008: £1,666,000) relating to the Company which have been deposited with third parties to secure certain liabilities.

18 Consolidated and Company – Share capital

	2009	2008
	£000	£000
Authorised		
500,000,000 Ordinary shares of £1 each	500,000	500,000
Allotted, called up and fully paid		
325,000,000 Ordinary shares of £1 each	325,000	325,000

19 Consolidated – Reserves

	Share Premium Account	Profit and loss account	Total
	£000	£000	£000
At beginning of year	978	(23,684)	(22,706)
Profit for the year	—	65,966	65,966
Actuarial gain (FRS17)	—	1,320	1,320
Deferred tax on actuarial gain	—	(370)	(370)
Net currency translation differences in foreign branches	—	10,625	10,625
At end of year	978	53,857	54,835

Company – Reserves

	Share Premium Account	Profit and loss account	Total
	£000	£000	£000
At beginning of year	978	(25,677)	(24,699)
Profit for the year	—	65,548	65,548
Actuarial gain (FRS17)	—	1,320	1,320
Deferred tax on actuarial gain	—	(370)	(370)
Net currency translation differences in foreign branches	—	10,123	10,123
At end of year	978	50,944	51,922

20 Consolidated – Reconciliation of movements in shareholder's funds

	2009	2008
	£000	£000
Opening shareholder's funds	**302,294**	347,047
Profit/(Loss) for the financial year	**65,966**	(34,935)
FRS17 Actuarial gain/(loss)	**1,320**	(17,774)
Deferred tax on actuarial (gain)/loss	**(370)**	4,977
Net currency translation differences in foreign branches	**10,625**	2,979
Closing shareholder's funds	**379,835**	302,294

Company – Reconciliation of movements in shareholder's funds

	2009	2008
	£000	£000
Opening shareholder's funds	**300,301**	345,664
Profit/(Loss) for the financial year	**65,548**	(35,286)
FRS17 Actuarial gain/(loss)	**1,320**	(17,774)
Deferred tax on actuarial (gain)/loss	**(370)**	4,977
Net currency translation differences in foreign branches	**10,123**	2,720
Closing shareholder's funds	**376,922**	300,301

21 Consolidated and Company – Technical provisions and deferred acquisition costs

	Provision for Unearned Premiums	Claims Outstanding	Equalisation Provision	Total Technical Provisions	Deferred Acquisition Costs	Net Insurance Funds
	£000	£000	£000	£000	£000	£000
Gross amount:						
At beginning of year	244,714	391,214	1,549	637,477	5,497	631,980
Exchange movements	6,990	14,408	—	21,398	(119)	21,517
Movement in the provision	(5,114)	(65,588)	5,475	(65,227)	288	(65,515)
At end of year	246,590	340,034	7,024	593,648	5,666	587,982
Reinsurance amount:						
At beginning of year	188,580	265,055	—	453,635	9,316	444,319
Exchange movements	5,378	9,053	—	14,431	780	13,651
Movement in the provision	(12,205)	(48,963)	—	(61,168)	1,847	(63,015)
At end of year	181,753	225,145	—	406,898	11,943	394,955
Net balance at end of year	64,837	114,889	7,024	186,750	(6,277)	193,027
At beginning of year	56,134	126,159	1,549	183,842	(3,819)	187,661

Net claims incurred in the Consolidated Profit and Loss Account includes £37,732,000 of savings related to losses that occurred prior to the current financial year (2008: £10,695,000 savings).

An equalisation provision has been established as explained in the accounting policies. This has the cumulative effect of reducing group and company shareholder's funds by £7,024,000 at the year end (2008: £1,549,000). The change in equalisation provision during the year comprised of a decrease of £5,475,000 (2008: £7,760,000 increase) in the balance on the technical account – general business and thereby decreasing the profit on ordinary activities before tax.

22 Consolidated – Other creditors including taxation and social security

	2009	2008
	£000	£000
Corporation taxation payable	1,806	3,352
Social security	5,787	3,816
Engineering fee income	6,356	5,698
Amounts owed to affiliated undertakings	12,063	6,283
Other sundry creditors	7,098	16,138
	33,110	35,287

Company – Other creditors including taxation and social security

	2009	2008
	£000	£000
Corporation taxation payable	1,604	3,142
Social security	5,670	3,614
Engineering fee income	6,356	5,698
Amounts owed to affiliated undertakings	13,321	7,299
Other sundry creditors	6,597	14,898
	33,548	34,651

23 Consolidated – Accruals and deferred income

	2009	2008
	£000	£000
Deferred reinsurance commissions (note 21)	11,943	9,316
Salary and incentive accruals	9,736	7,493
Other accruals and deferred income	2,690	6,567
	24,369	23,376

Company – Accruals and deferred income

	2009	2008
	£000	£000
Deferred reinsurance commissions (note 21)	11,943	9,316
Salary and incentive accruals	9,389	6,654
Other accruals and deferred income	2,325	5,920
	23,657	21,890

24 Pensions

Substantially all of the employees are covered through either state-type schemes (for example in France), or schemes provided by the group. Most of the employees not included in state-type schemes are covered through final salary defined benefit schemes in the UK, Australia and Germany.

For the UK and Australia the pension scheme assets are held in separate trustee administered funds to meet long-term pension liabilities to past and present employees. The defined benefit obligation arises wholly from funded plans. Germany's obligations are covered by an insurance contract with a third party, for which premiums are paid annually. Accordingly any movement in the obligations under the pension scheme will be fully offset by the expected return on the insurance contract.

Full actuarial valuations were carried out by a qualified independent actuary for the three major schemes on 1 January 2008 for UK, 31 December 2006 for Australia and 31 December 2005 for Germany. The disclosures required under FRS17 'Retirement Benefits' have been calculated based on the most recent full actuarial valuations updated to 31 December 2009 and are applicable to both the Group and the Company.

Scheme assets

The fair value of the scheme's assets, which are not intended to be recognised in the short term and may be subject to significant change before they are recognised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

2009	**UK £000**	**Australia £000**	**Germany £000**	**Total £000**
Equities	**50,019**	**7,598**	**—**	**57,617**
Bonds	**25,604**	**3,070**	**—**	**28,674**
Property	**—**	**533**	**—**	**533**
Other – Insurance Contracts	**—**	**—**	**15,931**	**15,931**
Other – Cash	**423**	**1,484**	**—**	**1,907**
Fair value of scheme assets	**76,046**	**12,685**	**15,931**	**104,662**
Present value of scheme liabilities	**71,445**	**11,129**	**15,931**	**98,505**
Surplus in the scheme	**4,601**	**1,556**	**—**	**6,157**
Related deferred tax liability	**(1,288)**	**(436)**	**—**	**(1,724)**
Net pension asset	**3,313**	**1,120**	**—**	**4,433**

2008	UK £000	Australia £000	Germany £000	Total £000
Equities	32,092	3,714	—	35,806
Bonds	17,845	1,815	—	19,660
Property	—	231	—	231
Other – Insurance Contracts	—	—	14,259	14,259
Other – Cash	190	1,248	—	1,438
Fair value of scheme assets	50,127	7,008	14,259	71,394
Present value of scheme liabilities	55,754	9,641	14,259	79,654
Deficit in the scheme	(5,627)	(2,633)	—	(8,260)
Related deferred tax asset	1,576	737	—	2,313
Net pension liability	(4,051)	(1,896)	—	(5,947)

24 Pensions (continued)

Analysis of other pension costs charged in arriving at the balance on the technical account – general business for 2009:

	2009			
	UK	**Australia**	**Germany**	**Total**
	£000	**£000**	**£000**	**£000**
Expected return on insurance contracts	—	—	(1,029)	(1,029)
Current service cost	2,957	926	1,029	4,912
	2,957	926	—	3,883

Analysis of amounts included in other finance income for 2009:

	2009			
	UK	**Australia**	**Germany**	**Total**
	£000	**£000**	**£000**	**£000**
Expected return on pension scheme assets / insurance contracts	3,918	532	891	5,341
Interest on pension scheme liabilities	(3,497)	(659)	(891)	(5,047)
	421	(127)	—	294

Analysis of other pension costs charged in arriving at the balance on the technical account – general business for 2008:

	2008			
	UK	Australia	Germany	Total
	£000	£000	£000	£000
Expected return on insurance contracts	—	—	(1,004)	(1,004)
Current service cost	2,446	411	1,004	3,861
	2,446	411	—	2,857

Analysis of amounts included in other finance income for 2008:

	2008			
	UK	Australia	Germany	Total
	£000	£000	£000	£000
Expected return on pension scheme assets / insurance contracts	4,036	593	779	5,408
Interest on pension scheme liabilities	(3,082)	(460)	(779)	(4,321)
	954	133	—	1,087

The amounts above in respect of the German pension scheme have been fully offset by expected recoveries under an insurance contract on a line by line basis. All items in the profit and loss account and statement of total recognised gains and losses are shown net of the expected return on the insurance contract.

24 Pensions (continued)

Analysis of amount recognised in statement of total recognised gains and losses 2009:

	2009			
	UK	**Australia**	**Germany**	**Total**
	£000	**£000**	**£000**	**£000**
Actual return on pension scheme assets	11,116	1,892	—	13,008
Less; Expected return on pension scheme assets	3,918	532	—	4,450
	7,198	1,360	—	8,558
Experience gains and losses arising on scheme liabilities	134	(588)	(472)	(926)
Changes in assumptions underlying the present value of scheme assets / liabilities	(10,275)	3,491	1,513	(5,271)
Expected return on pension scheme assets / insurance contracts	—	—	(1,041)	(1,041)
Actuarial gain/(loss) recognised in statement of total recognised gains and losses	(2,943)	4,263	—	1,320

Analysis of amount recognised in statement of total recognised gains and losses 2008:

	2008			
	UK	Australia	Germany	Total
	£000	£000	£000	£000
Actual return on pension scheme assets	(9,307)	(1,337)	—	(10,644)
Less; Expected return on pension scheme assets	4,036	593	—	4,629
	(13,343)	(1,930)	—	(15,273)
Experience gains and losses arising on scheme liabilities	(565)	12	301	(252)
Changes in assumptions underlying the present value of scheme assets / liabilities	173	(2,121)	1,398	(550)
Expected return on pension scheme assets / insurance contracts	—	—	(1,699)	(1,699)
Actuarial gain/(loss) recognised in statement of total recognised gains and losses	(13,735)	(4,039)	—	(17,774)

24 Pensions (continued)

Cumulative amount recognised since 1 January 2002 in statement of total recognised gains and losses:

	UK	Australia	Germany	Total
	£000	£000	£000	£000
At end of year	(16,441)	(935)	—	(17,376)

	2009			
Changes in the present value of the defined benefit obligation during 2009	**UK**	**Australia**	**Germany**	**Total**
	£000	**£000**	**£000**	**£000**
At beginning of year	**55,754**	**9,641**	**14,259**	**79,654**
Exchange adjustments	**—**	**3,096**	**1,104**	**4,200**
Current service cost	**2,957**	**926**	**1,029**	**4,912**
Interest cost	**3,497**	**659**	**891**	**5,047**
Benefits paid	**(904)**	**(669)**	**(311)**	**(1,884)**
Contributions from plan participants	**—**	**379**	**—**	**379**
Actuarial loss/(gain)	**10,141**	**(2,903)**	**(1,041)**	**6,197**
At end of year	**71,445**	**11,129**	**15,931**	**98,505**

	2008			
Changes in the present value of the defined benefit obligation during 2008	UK	Australia	Germany	Total
	£000	£000	£000	£000
At beginning of year	50,652	6,921	12,090	69,663
Exchange adjustments	—	(68)	2,319	2,251
Current service cost	2,446	411	1,004	3,861
Interest cost	3,082	460	779	4,321
Benefits paid	(818)	(498)	(234)	(1,550)
Contributions from plan participants	—	306	—	306
Actuarial loss/(gain)	392	2,109	(1,699)	802
At end of year	55,754	9,641	14,259	79,654

24 Pensions (continued)

Changes in the fair value of plan assets during 2009	**UK**	**Australia**	**Germany**	**Total**
		2009		
	£000	**£000**	**£000**	**£000**
At beginning of year	**50,127**	**7,008**	**14,259**	**71,394**
Exchange adjustments	**—**	**2,250**	**1,104**	**3,354**
Expected return on plan assets	**3,918**	**532**	**—**	**4,450**
Contributions paid	**15,707**	**1,825**	**—**	**17,532**
Actuarial gain/(loss)	**7,198**	**1,360**	**—**	**8,558**
Benefits paid	**(904)**	**(669)**	**(311)**	**(1,884)**
Contributions from plan participants	**—**	**379**	**—**	**379**
Expected return on insurance contracts	**—**	**—**	**879**	**879**
At end of year	**76,046**	**12,685**	**15,931**	**104,662**

Changes in the fair value of plan assets during 2008	UK	Australia	Germany	Total
		2008		
	£000	£000	£000	£000
At beginning of year	52,753	7,767	12,090	72,610
Exchange adjustments	—	(76)	2,319	2,243
Expected return on plan assets	4,036	593	—	4,629
Contributions paid	7,499	846	—	8,345
Actuarial gain/(loss)	(13,343)	(1,930)	—	(15,273)
Benefits paid	(818)	(498)	—	(1,316)
Contributions from plan participants	—	306	—	306
Expected return on insurance contracts	—	—	(150)	(150)
At end of year	50,127	7,008	14,259	71,394

The total contributions to the defined benefit schemes in 2010 are expected to be £3,923,000.

24 Pensions (continued)

The major assumptions used in these valuations were:

	2009			2008		
	UK	**Australia**	**Germany**	UK	Australia	Germany
	%	**%**	**%**	%	%	%
Rate of increase in salaries	**5.25**	**5.0**	**3.2**	4.5	5.0	3.9
Rate of increase in pensions in payment and deferred pensions	**3.55**	**3.0**	**2.0**	2.9	3.0	2.25
Discount rate applied to scheme liabilities	**5.9**	**7.5**	**5.62**	6.0	5.2	5.85
Inflation assumption	**3.75**	**2.75**	**N/A**	3.0	2.5	N/A
Long term rate of Return:						
Equities	**8.45**	**7.9**	**N/A**	7.7	6.3	N/A
Bonds	**5.65**	**5.4**	**N/A**	6.7	4.4	N/A
Index-linked gilts	**4.45**	**N/A**	**N/A**	3.7	N/A	N/A
Cash	**0.5**	**5.4**	**N/A**	2.0	3.8	N/A
Property	**N/A**	**7.5**	**N/A**	N/A	5.9	N/A

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

			2009	
History of experience gains and losses 2009	**UK**	**Australia**	**Germany**	**Total**
	£000	**£000**	**£000**	**£000**
Fair value of scheme assets	**76,046**	**12,685**	**15,931**	**104,662**
Present value of defined benefit obligation	**(71,445)**	**(11,129)**	**(15,931)**	**(98,505)**
Surplus/(Deficit) in the scheme	**4,601**	**1,556**	**—**	**6,157**
Experience gain/(loss) arising on plan liabilities	**134**	**(588)**	**(472)**	**(926)**
Experience gain/(loss) arising on plan assets	**7,198**	**1,360**	**472**	**9,030**

			2008	
History of experience gains and losses 2008	UK	Australia	Germany	Total
	£000	£000	£000	£000
Fair value of scheme assets	50,127	7,008	14,259	71,394
Present value of defined benefit obligation	(55,754)	(9,641)	(14,259)	(79,654)
Surplus/(Deficit) in the scheme	(5,627)	(2,633)	—	(8,260)
Experience gain/(loss) arising on plan liabilities	(565)	12	301	(252)
Experience gain/(loss) arising on plan assets	(13,343)	(1,930)	(301)	(15,574)

24 Pensions (continued)

History of experience gains and losses 2007	2007 UK £000	Australia £000	Germany £000	Total £000
Fair value of scheme assets	52,753	7,767	12,090	72,610
Present value of defined benefit obligation	(50,652)	(6,921)	(12,090)	(69,663)
Surplus/(Deficit) in the scheme	2,101	846	—	2,947
Experience gain/(loss) arising on plan liabilities	(357)	(114)	(162)	(633)
Experience gain/(loss) arising on plan assets	(61)	131	162	232

History of experience gains and losses 2006	2006 UK £000	Australia £000	Germany £000	Total £000
Fair value of scheme assets	47,775	6,739	11,594	66,108
Present value of defined benefit obligation	(55,305)	(6,092)	(11,594)	(72,991)
Surplus/(Deficit) in the scheme	(7,530)	647	—	(6,883)
Experience gain/(loss) arising on plan liabilities	1,942	292	810	3,044
Experience gain/(loss) arising on plan assets	218	(414)	(810)	(1,006)

History of experience gains and losses 2005	2005 UK £000	Australia £000	Germany £000	Total £000
Fair value of scheme assets	43,795	5,744	10,216	59,755
Present value of defined benefit obligation	(51,308)	(5,916)	(10,216)	(67,440)
Surplus/(Deficit) in the scheme	(7,513)	(172)	—	(7,685)
Experience gain/(loss) arising on plan liabilities	(4,591)	591	611	(3,389)
Experience gain/(loss) arising on plan assets	3,765	196	(611)	3,350

25 Capital Commitments

The company has the following annual commitments under non-cancellable operating leases:

	2009 Buildings £000	2009 Other £000	2008 Buildings £000	2008 Other £000
Operating leases which expire:				
Within 1 year	683	345	435	239
Within 2 to 5 years	3,915	2,003	4,702	1,507
More than 5 years	2,537	—	2,040	—
	7,135	2,348	7,177	1,746

26 Parent Company & Ultimate controlling party

The company is a wholly owned subsidiary of Factory Mutual Insurance Company (FMIC), the registered office of which is 270 Central Avenue, Johnston, RI 02919-4949, USA. FMIC is the largest group in which the financial results of FMI are included. Copies of the group accounts are available to the public at the above address.

27 Reconciliation to US GAAP

The financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP), which differs in certain respects from accounting principles generally accepted in the United States (US GAAP). Whilst there are numerous differences between the two bases of accounting, there are only a limited number that are applicable to the Group. The following is a reconciliation of UK GAAP shareholders funds attributable to equity interests and UK GAAP loss for the year to the equivalent measures under US GAAP. A description of the relevant differences follows the reconciliation.

Shareholder's Equity Reconciliation:

	2009 £000	2008 £000
UK GAAP shareholder's funds attributable to equity interests	379,835	302,294
Equalisation provision	7,024	1,549
Provision for bad debts	—	4,276
Defined benefit pension asset	(288)	(277)
US GAAP shareholder's equity	386,571	307,842

27 Reconciliation to US GAAP (continued)

Profit and Loss Reconciliation:

	2009	2008
	£000	£000
UK GAAP profit/(loss) for the year	65,966	(34,935)
Equalisation provision	5,475	(7,760)
Provision for bad debts	(5,062)	1,411
Defined benefit pension asset	(374)	(165)
Unrealised (gain)/loss on investments	(93,612)	19,831
Foreign exchange revaluations of investments	5,877	(13,535)
US GAAP loss for the year	(21,730)	(35,153)

Equalisation Provision

Under UK GAAP, an equalisation provision is required to be included within technical provisions based on a specified calculation. The requirement is in place to help smooth fluctuations in loss ratios in future years for business where claims in any future year may be subject to significant deviations from recent or average claims experience, or where trends in experience may be subject to change. Such volatile claims experience may arise in the case, for example, of insurance against losses caused by major catastrophes such as hurricanes or earthquakes. Under US GAAP, loss reserves are required to be recorded at management's best estimate of the ultimate amount required to settle the claims. Smoothing mechanisms such as the equalisation provision, and catastrophe reserves specifically are prohibited under US GAAP.

Provision for Bad Debts

Under UK and US GAAP, the Company applies the accounting policy of its parent company which is to provide for a bad debt provision when there is evidence that an asset is impaired. Previously under UK GAAP the Company made an additional provision for debtors greater than 90 days past due, however this additional provision was considered unnecessary based upon historical debtor recoverability trends.

Defined Benefit Pension Asset

Under UK GAAP, retirement benefits are accounted for under FRS 17 "Retirement Benefits" (FRS 17). For US GAAP, the Company follows the accounting policy of its parent company, the Statement of Financial Accounting Standard No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS 158). Under both FRS 17 and SFAS 158, the funded status of defined benefit plans are recorded on balance sheet. The basic principles of the two standards are similar, however there are differences in the underlying calculations of the funded status.

Unrealised (gains)/losses on investments

Under UK GAAP, unrealised gains and losses on investments are recognised in the profit and loss account. For US GAAP purposes, unrealised gains and losses on investments are recognised within Shareholder's Equity to the extent that any unrealised losses are not permanent impairments.

27 Reconciliation to US GAAP (continued)

Foreign exchange revaluations of investments

Under UK GAAP foreign exchange revaluations on investments are recognised in the profit and loss account. For US GAAP purposes, foreign exchange revaluations on investments are recognised directly in Shareholder's Equity, to the extent that the related investments are still held by the group at the end of the year.