Aviva plc Interim report 2002

AVIVA

Aviva, new name, same company

CGNU plc became Aviva plc on 1 July 2002. Bringing together more than 50 trading names under the Aviva brand will generate greater value from our marketing spend, particularly in advertising and sponsorships. Increased awareness of the Aviva group will make it easier for us to attract new customers and enter new markets. Combining under the Aviva name will also help to create a stronger sense of belonging for our 64,000 employees. Most of the group's trading brands will change to Aviva by the end of 2003. However, the group's strongest existing mass market brands will remain, including Norwich Union (UK), Delta Lloyd (Netherlands), Hibernian (Ireland), Commercial Union (Poland) and NZI (New Zealand).

A look at the numbers

Unaudited results
Six months ended 30 June 2002

£7.3bn

Worldwide long-term savings new business sales (2001: £7.1 billion)

£979m

Operating profit – continuing operations* (2001: £977 million)

£11.3bn

Equity shareholders' funds (31 December 2001: £11.6 billion**)

101%

Improved worldwide combined operating ratio*** delivered by our general insurance business (2001: 103%)

£480m

General insurance operating profit up 13% (2001: £427 million)

£1.3bn

Bancassurance sales doubled (2001: £0.6 billion)

Life profits reporting In reporting the Aviva plc headline operating profit, life profits have been included using the achieved profit basis. This is used throughout the Aviva group and by many in the investment community to assess performance. The modified statutory basis, which is used in our accounts, is also identified in the headline figures. We have focused on the achieved profit basis, as we believe life achieved operating profit is a more realistic measure of the performance of life businesses than the modified statutory basis. Life modified statutory operating profit before tax amounted to £574 million. The basis used for reporting achieved profit is consistent with the draft guidance circulated by the Association of British Insurers.

Basis of preparation The results for the six months to 30 June 2002 have been prepared on the basis of the accounting policies set out in CGNU plc's 2001 Annual Report and Accounts other than in respect of the adoption of Financial Reporting Standard 19 as set out on page 22. Overseas currency results are retranslated at average exchange rates and all growth rates in this report are quoted in local currency.

* Including life achieved operating profit before amortisation of goodwill and exceptional items.
** Restated for the impact of Financial Reporting Standard 19 "Deferred Tax".
***Represents the total of claims costs, commission and expenses expressed as a percentage of premiums.

Chairman's statement

"Trading conditions have been difficult but our results are pretty robust."

Our performance in 2001 was in line with our commitments. In fact, our growth in operating profits, of 41%, was above expectations and we have delivered merger savings above established targets.

This year, trading conditions have been more difficult. Against that background, our six-month results are pretty robust. Our interim operating profit before tax was £979 million, buoyed by increasing volumes of profitable long-term savings business and an excellent result from our general insurance operations.

Our strategy is firmly established. Only two years ago, life and savings was regarded as the business to be in, whereas general insurance was seen as risky and volatile. Perceptions have changed. But we are committed to continue to grow our life and savings portfolio at a healthy rate, exploit favourable acquisition opportunities, and continue to write a balanced and profitable book of general insurance business. The ratio between the two segments now stands at 70:30.

Our share price has taken a real beating over the period. There is not much comfort in knowing that we are down in line with the sector, or that equity markets have fallen to levels similar to those experienced following 11 September. The only response to such testing conditions is consistent performance.

Solvency is naturally affected by the sharp decline in equity markets. Our rating is still very healthy, however. Consistent with the dividend policy announced in February, the Board has declared an interim dividend of 8.75 pence net per share (2001 interim dividend: 14.25 pence) payable on 15 November 2002 to shareholders on the register on 27 September 2002. We understand the concern expressed by some shareholders about the cut in the dividend. But to grow our long-term savings business profitably and aggressively, we need to invest in the business. The Board is convinced that this is the correct course of action, because our shareholders will own a stronger company earning bigger profits in the long term.

Policyholders' assets have also shrunk in this bear market. But, the whole idea behind assurance is to have a longer perspective and recover losses in improved markets.

We announced in June that Philip Scott, executive director for the UK life and long-term savings business, is to broaden his involvement in the group's European operations. He will work more closely with the board of Delta Lloyd in the Netherlands and join the board of CGU France. This move reflects the importance of these markets to the Aviva group.

The European Financial Services Round Table, which comprises the chairmen and chief executives of 16 prominent banks and insurance companies, was formed last year under my chairmanship to promote a single, open and transparent market for financial services across the European Union. In a report published in June – "One Europe, One Pension"– we pointed out that state-sponsored schemes are becoming insolvent because a shrinking working population cannot support the growing number of retired people. Future pensioners will be impoverished unless quick action is taken. Private savings will have to supplement state schemes. This fast-growing market provides a vast opportunity for the best providers in Europe. We are determined that Aviva should be one of them.

There is a general scepticism about accounting practices. We are acutely aware that insurance accounts can be difficult to understand, and are committed to making ours as straightforward and transparent as possible. This is in keeping with our

Pehr G Gyllenhammar
Chairman

approach to good corporate citizenship. In April, we published our first Corporate Social Responsibility Report. Looking after customers, suppliers and staff, taking account of the broader community and the environment, adhering to high standards of business conduct and observing human rights are, in our view, essential contributors to a rounded and successful organisation.

Our change of name from CGNU to Aviva was approved by shareholders at the annual general meeting in April. Aviva carries associations of life, vitality and living well which match the aspirations we have for our customers. One global brand will harness the benefits of our size and international capabilities.

We have our problems, which cause concern for our customers. To integrate many legacy systems is time-consuming, and our service has not been satisfactory. The levels are now improving.

It is in difficult times that good management will make a difference. We have a very competent team.

We are now focused on running our operations efficiently to lower costs and improve service levels. We aspire to be a low-cost producer and the service provider of choice. With loyal and dedicated staff, I am convinced that we will succeed.

Highlights

	Unaudited 6 months to 30 June 2002 £m	Restated* Unaudited 6 months to 30 June 2001 £m	Local currency growth %
Worldwide long-term savings new business sales: life and pensions	**6,674**	6,290	6
: retail investments	**622**	763	(19)
Total premiums written (after reinsurance) and investment sales – continuing operations, including share of associates' premiums	**14,495**	13,995	4
New business contribution (before effect of solvency margin)	**289**	272	6
Operating profit before tax – continuing operations (i)	**979**	977	1
Operating profit before tax (modified statutory basis) (ii)	**757**	728	4
Operating earnings per ordinary share (i)	**27.4p**	27.5p	
Operating earnings (modified statutory basis) per ordinary share (ii)	**21.5p**	20.6p	
Dividend per ordinary share	**8.75p**	14.25p	
Equity shareholders' funds (iii)	**11,259**	11,552**	
Total shareholders' funds (iv)	**11,459**	11,752**	
Return on capital employed (v)	**11.0%**	9.7%**	
Net asset value per ordinary share (iii)	**511p**	524p**	
Assets under management	**£214bn**	£209bn**	

(i) Operating profit/earnings before tax shown above are in respect of continuing operations, include life achieved operating profit and exclude amortisation of goodwill £46 million (30 June 2001: £30 million) and exceptional items £nil (30 June 2001: £14 million).

(ii) Operating profit/earnings before tax shown above are in respect of continuing operations and exclude amortisation of goodwill £46 million (30 June 2001: £30 million), amortisation of acquired additional value of in-force long-term business £34 million (30 June 2001: £17 million) and exceptional items £nil (30 June 2001: £14 million).

(iii) Based on equity shareholders' funds, adding back the equalisation provision.

(iv) Based on equity and non-equity shareholders' funds which have been reduced by the equalisation provision of £283 million (31 December 2001: £272 million).

(v) The return on capital is calculated as the after-tax return on opening equity capital, based on operating profit from continuing operations, including life achieved profit, before amortisation of goodwill and exceptional items.

* Restated for the impact of Financial Reporting Standard 19 "Deferred Tax".
**As at 31 December 2001.

Richard Harvey
Group Chief Executive

Group Chief Executive's review

"This is a solid set of results in the current market environment. Although investment markets continue to be turbulent, these results reflect the fact that Aviva is a financially strong company, with resilient and well-diversified businesses."

Aviva is the world's seventh-largest insurance group, the largest insurer in the UK and among the top five life companies in Europe.

Aviva's total sales of long-term savings new business were 51% through financial advisers, 31% direct and via tied agents, and 18% through bancassurance in the first half of 2002.

70% of group premium income from long-term savings

Our business continued to make steady progress during the first half of 2002, with a clear strategy and strong management across the group. Nonetheless, we are not insulated from the reality of what is happening in the outside world, and these factors have depressed some of our numbers. In the face of difficult conditions for long-term savings, the small increase in operating profit to £979 million is a good result.

Turbulence in global equity markets and financial concerns at both a corporate and personal level have affected the savings and investment sector. These factors have also fed through to our share price, as well as the insurance sector as a whole. At such times it is even more important that we deliver consistent results – and we have been shaping our group to achieve exactly this.

Group results

Our operating profit of £979 million (2001: £977 million) was accompanied by good growth in our worldwide long-term savings new business, with half-year sales of £7.3 billion. Worldwide life and pension sales measured on an annual premium equivalent (APE) basis† were up 11% to £1.2 billion.

Life achieved operating profit was £796 million (2001: £849 million) due to lower investment returns and non-recurrence of certain prior period one-off profits.

The general insurance business, which has focused on creating strong market positions capable of generating high-quality earnings, cash and a healthy return on capital, returned an excellent interim operating profit, up 13% to £480 million.

On a modified statutory basis operating profit before tax rose to £757 million (2001: £728 million). Notwithstanding the resilient operating performance, the group delivered lower overall profits before tax at £110 million (2001: £425 million).

For the second year running the falling worldwide equity markets have given rise to adverse pre-tax investment movements of £525 million (2001: £446 million). Our overall shareholders' funds have therefore declined in the half year to £11.3 billion (31 December 2001: £11.6 billion, restated). Overall, the group's position remains strong, with sufficient capital to withstand further setbacks in the market.

Long-term savings

The principal source of our revenue growth is the long-term savings business, which produces 70% of our premiums and 81% of our pre-tax operating profit. Even though we have been experiencing short-term volatility in global investment markets, this business continues to afford us great opportunities and the benefits to our customers and shareholders remain.

The 9% increase in worldwide new business sales as measured on an APE basis demonstrates continuing demand for pensions, savings and healthcare products as governments encourage ageing populations to take more responsibility for their own retirement and welfare provision.

Overall margins (the ratio of new business contribution to life and pensions sales measured on an APE basis) were 24.0% (31 December 2001: 25.5%), principally reflecting business mix. Retail investment sales were lower, down 19% at £622 million, reflecting lack of consumer confidence in equity-backed products.

We continue to build momentum in important European long-term savings markets. We see significant potential in these markets, and are well placed to capitalise on opportunities through the strength of our relationships with financial advisers and our bancassurance expertise.

UK

Our biggest long-term savings operation is Norwich Union in the UK, with a market share of over 12% and around 5.5 million customers. We have targeted a market share of 15% by the end of 2005.

Life and pensions new business sales grew to £3.7 billion in the first half of the year, up 12% when measured on an APE basis. This included stakeholder pension sales of £388 million, where we are the market leader. The profit from new business was maintained at £164 million, though margins were slightly down compared with the first half of last year, primarily reflecting the increase in lower-margin pension sales

†Annual premium equivalent (APE) is a UK industry's standard measure of new regular premiums and 10% of single premiums.

Aviva has the largest European presence of any UK-based insurer, with 88% of the group's total premiums coming from those markets.

Access to over 20 million customers via bancassurance

as a proportion of total sales. Operating profit fell from £465 million to £424 million principally as the impact of lower equity markets in 2001 fed through into the results.

Total sales through our joint venture with The Royal Bank of Scotland Group increased by over 160% to £473 million as we built on the strong foundations laid in 2001. Included in the figures are an encouraging £309 million of sales from single premium with-profit bonds launched this year. Our results include our share of the sales from this partnership.

The Sandler Review of savings and the Pickering Review of pensions were both published in July and are likely to change the future of long-term savings provision in the UK marketplace. The reviews are aimed at closing the £27 billion per annum savings gap in the UK. The Sandler Review principles favour providers with scale, multi-distribution expertise and strong product offerings. However we believe it is important to assess how shareholder value may be maximised by operating under these principles.

The strength of our with-profit funds is underpinned by our orphan estate of approximately £4.7 billion at 30 June 2002 (31 December 2001: £5.2 billion), which is used to support the business for the benefit of policyholders and shareholders.

The orphan estate is estimated on the basis of realistic assumptions and provides a good indication of the underlying strength of our funds.

France

New business in France, the group's second-largest long-term savings operation, was adversely affected by a difficult market environment. In particular, sales of unit-linked products were depressed by the volatile equity markets. Notwithstanding the lower sales volumes, life achieved operating profit was maintained at £111 million.

We continue to look at ways of expanding our already diverse distribution methods, and are in discussions with Mederic, one of the largest companies managing public retirement schemes in France. It serves around one million retired people and also has a strong group protection business. We aim to establish a joint venture whereby a range of life insurance products is offered to Mederic's clients.

Italy

Total new business sales rose by 36% to £526 million, as distribution through our bancassurance agreements gathered pace. Operating profit grew 25% to £30 million.

In July, together with UniCredito Italiano, we announced a new agreement to form a bancassurance joint venture with Banca Popolare Commercia e Industria (BPCI). This operation, which will have exclusive access to all BPCI branches for the sale of life and pensions products for an initial period of five years, will extend our bancassurance reach in Italy through another 550 branches to a further 1.2 million potential customers.

Spain

Total new business premiums increased by 29% to £379 million in this important growth market. We are a top-five provider and have the fourth-largest bancassurance network in Spain through our partnerships with four of the largest Spanish savings banks. Life achieved operating profit was up by 23% at £38 million.

Netherlands (including Belgium and Luxembourg)

Delta Lloyd reported total new business sales of £366 million (2001: £364 million), an encouraging performance considering the tax reforms introduced last year continue to dampen demand for life products. Life achieved operating profit fell to £87 million (2001: £93 million).

In Belgium good progress has been made in the integration of Bank Nagelmackers, acquired late in 2001, and sales through this distribution channel have started to flow through. We expect these sales to continue to grow during the second half of 2002.

Aviva's internet website, www.aviva.com, was relaunched with a new customer section and an online investment monitoring tool on 1 July 2002 as the group changed its name from CGNU.

Aviva Life Insurance launched in India

Norwich Union was named best UK insurance fund manager for the second consecutive year in the Standard & Poor's Fund Awards in March 2002.

£14.5 billion premium income and investment sales from continuing operations for the half year

Ireland

Hibernian, our top-five long-term savings provider in Ireland, recorded total new business sales of £212 million (2001: £257 million). New single premium pension sales were held back by the uncertain investment conditions but demand for regular premium life products rose strongly, benefiting from the one-off sales opportunity of the government's Special Savings Incentive Account before the closing date of April 2002. Operating profit was unchanged at £37 million.

We continue to leverage our groupwide product knowledge and market expertise in order to take advantage of new opportunities. For example, we are well placed to capitalise on the expected introduction of the Irish government's Personal Retirement Savings Account in January 2003, benefiting from Norwich Union's experience in the UK stakeholder market. Hibernian has also embarked upon a pilot distribution scheme with Tesco, which seeks to build upon the successful existing partnership between Tesco and Norwich Union in the UK.

Other Europe

Total long-term savings new business sales from Aviva's other European operations were maintained at £222 million. In Germany, total new business premiums increased by 48% to £62 million, benefiting from a new broker relationship and a successful marketing campaign. Investment sales through our Luxembourg operations fell by one third, reflecting the difficult equity market conditions.

International

Our businesses outside Europe saw sales rise 77% to £661 million and operating profit increase by 29% to £22 million.

The Singaporean operation distributed its first newly designed product in April through our bancassurance partnership with DBS, one of the largest banks in South East Asia and the leading bank in Singapore, while generating £97 million of total new business sales in the period. This is an encouraging start and we have since launched further new products.

In February we announced the expansion of our bancassurance partnership into Hong Kong, a new and exciting market for us. In May we received regulatory clearance to begin trading and will begin operations towards the end of the year.

In the United States, poor stock market performance and economic uncertainty led customers to seek the reassurance of fixed interest financial products. Demand for annuity products enabled us to achieve significant premium growth, with total new business premiums up 50% to £237 million.

Aviva Life Insurance, our new joint venture with Dabur Group in India, was launched in June. In China we signed an agreement in April with COFCO, a state-owned Chinese export and import business, to set up a life insurance joint venture. This business should become operational in early 2003, subject to final regulatory approval. Both of these developments offer us access to markets with excellent long-term potential.

Victoire Asset Management earned the title of best fund manager over three years from weekly finance magazine *Le Revenu* in May 2002.

Fund management

In a market hampered by volatile investment returns and uncertainty, the operating profit from Aviva's worldwide fund management business fell to £3 million. Our worldwide assets under management rose to £214 billion (31 December 2001: £209 billion), as new business flows in the period more than offset the impact of the fall in the global investment markets.

UK

Morley Fund Management is one of the leading UK-based fund managers, with assets under management of over £100 billion. We attracted a new mandate to manage £3.8 billion for The Royal Bank of Scotland, which will boost external funds under management in the second half of the year.

We have launched a number of new funds, including two new US mutual funds managed out of our Boston office. These are the first US mutual funds to be managed by Morley, and represent an important step towards building capability in this market.

Morley was voted specialist fund manager of the year for socially responsible investment and corporate governance in the UK *Professional Pensions* Awards 2002 in April, and was voted Fund Manager of the Year at the *Pensions Week* Awards in June 2002.

£214 billion in assets under management

Our retail investment operation reported sales of £313 million (2001: £557 million) as investors adopted a cautious approach to equity-backed products.

The combined businesses reported an operating loss of £8 million compared with a profit of £5 million last year, mainly reflecting the impact of lower equity market levels on fee income together with continuing investment in developing our retail investment business.

France

Victoire Asset Management returned an operating profit of £6 million and received a number of awards in the first half of 2002 in recognition of its consistently strong fund performance. These accolades included two prestigious industry awards from Standard & Poor's.

Netherlands

Delta Lloyd achieved a 40% rise in investment sales to £56 million while total assets under management stood at £29 billion.

Australia

New business sales through our Navigator retail fund administration service increased 11% to £493 million. Navigator is a leading master trust business with £3.2 billion of funds under administration.

We are working to launch the Navigator concept into the Asian market through our Singaporean operation during the second half of 2002.

General insurance

The 13% increase in operating profit to £480 million reflects the success of our strategy to focus mainly on personal lines insurance and small to medium business cover, employing disciplined underwriting and efficient claims handling. Worldwide net premiums written on continuing business were up 1% at £4,401 million.

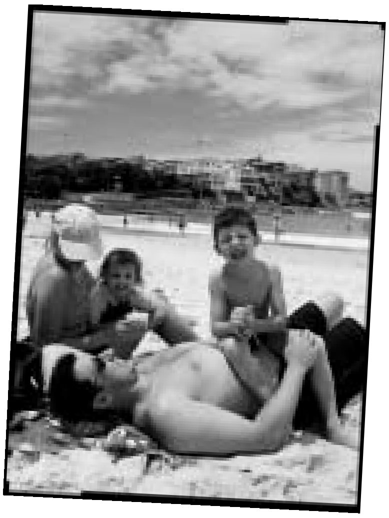
Rigorous risk selection and strong rating action produced an excellent combined operating ratio (COR) of 101% at the half year, compared with 103% a year ago. We have one of the best CORs – which represents the total of claims costs, commission and expenses expressed as a percentage of premiums – in our European peer group. This achievement reinforces our confidence that we have a business capable of sustaining the group's target COR of 102% or better across the underwriting cycle.

UK

Our biggest general insurance operation, Norwich Union Insurance, is the largest insurer in the UK and has a market share of some 19%. We recorded an impressive 19% increase in operating profit to £303 million, on net premiums

More than half of Aviva's general insurance business is written in the UK, where Norwich Union leads the market with a share of some 19%.

Aviva is a low-cost provider with a worldwide general insurance expense ratio improving to 11.3%.



written of £2.4 billion, with a COR of 101%. Underpinning this profit is our strategy of delivering a consistent sustainable underwriting performance across our portfolio of business, across the cycle.

Norwich Union leads the market with a range of initiatives. We continue to lobby for improved UK flood defences, and welcome as a first step the £150 million funding by 2005/06 announced by the government in July. Additionally, the national 3D map we have commissioned to help pinpoint places at risk from flooding will enable more accurate premiums for homes and businesses, which we expect to reflect later in 2002.

We are also developing an innovative motor insurance product called Pay As You Drive™, involving 7,000 customers in a long-term pilot study. Eventually, customers will be able to pay premiums based on when and where they use their car, using data collected through a black box installed in the vehicle.

Norwich Union retains its leading position across the broker, corporate partnership and retail direct distribution channels and is also building a presence in e-commerce, with quotes via the internet running at some 100,000 a month. In addition, we are piloting a dedicated business-to-business website which, in time, will enable brokers to manage their customers' policies online.

France

The sale of CGU Courtage, our broker distribution business, was completed in May. This leaves our business in France focused entirely on personal and small commercial business, in line with our strategy.

Net asset value per ordinary share of 511 pence

Net premiums written were lower at £275 million, reflecting the reduced size of the business. However, the continuing business achieved an excellent COR of 100%, in line with the group target of 102% or better.

Other Europe

Operating profit from our other European businesses increased to £60 million, reflecting improved results from all our major operations.

We announced in July the sale of the Plus Ultra general insurance business in Spain for £158 million. The sale is expected to complete in the third quarter of 2002. The scale of our general insurance operations in Spain was insufficient to achieve a top-five position in this market.

We also agreed the sale of our small general insurance operations in Portugal and Switzerland.

International

Premium rating action in our Canadian business saw an improvement in its COR at 103%. Operating profit of £39 million was down on last year, primarily reflecting lower investment returns earned in the period.

In Australia, where CGU Australia is among the top five general insurers in the country, net premiums written increased to £278 million, following the successful integration of the Fortis business in 2001.

Aviva is the leading general insurer in the UK and Ireland and is one of the top five in Canada, the Netherlands, Singapore, Australia and New Zealand.

Operating profit from our Australia and New Zealand businesses amounted to £24 million.

Shareholders' capital employed

In a market that increasingly looks for quality and financial strength, our strong capital position is fundamental to our business. The group achieved a profitable performance at the operating level which, when offset by the fall in the equity markets, saw shareholders' funds down at £11.3 billion (31 December 2001: £11.6 billion, restated). Overall, the group's position remains strong, with sufficient capital to withstand a further deterioration in the market.

Outlook

As we move into the second half of 2002, market conditions for long-term savings sales are becoming increasingly difficult as investors are discouraged by the ongoing uncertainty in worldwide investment markets and changes in the macro-economic environment. Over the short term, this environment presents a challenge to many of our businesses. However, there remains a need for long-term savings provision and we believe that the longer-term dynamics for our business are unaltered. We have built our businesses so that they are well placed with their multi-distribution channels and broad range of products to continue to meet the needs of our customers.

Richard Harvey
Group Chief Executive

Summarised consolidated profit and loss account
Achieved profit basis
For the six months ended 30 June 2002

Page	6 months 2002 €m		6 months 2002 £m	Restated* 6 months 2001 £m	Restated* Full year 2001 £m
		Operating profit			
11	**1,283**	Life achieved operating profit	**796**	849	1,665
24	**52**	Health	**32**	32	70
	5	Fund management	**3**	24	29
25	**774**	General insurance	**480**	427	945
	(11)	Non-insurance operations	**(7)**	1	7
	(155)	Corporate costs	**(96)**	(81)	(187)
	(335)	Unallocated interest charges	**(208)**	(215)	(426)
	(34)	Wealth management	**(21)**	(60)	(99)
	1,579	**Operating profit – continuing operations before tax, amortisation of goodwill and exceptional items**	**979**	977	2,004
25	**–**	Discontinued operations	**–**	(21)	(21)
	1,579		**979**	956	1,983
	(74)	Amortisation of goodwill	**(46)**	(30)	(87)
	–	Financial Services Compensation Scheme levy	**–**	(14)	(31)
	–	Integration costs	**–**	–	(59)
	1,505	Operating profit before tax	**933**	912	1,806
	(2,182)	Variation from longer-term investment return	**(1,353)**	(1,174)	(2,584)
	–	Effect of economic assumption changes	**–**	143	1
	(42)	Change in the equalisation provision	**(26)**	(22)	(56)
23	**(26)**	(Loss)/profit on the disposal of subsidiary undertakings	**(16)**	247	287
	(745)	**(Loss)/profit on ordinary activities before tax**	**(462)**	106	(546)
	(492)	Tax on operating profit – continuing operations before amortisation of goodwill and exceptional items	**(305)**	(313)	(631)
	695	Tax on profit on other ordinary activities	**431**	276	755
	(542)	**(Loss)/profit on ordinary activities after tax**	**(336)**	69	(422)
	(63)	Minority interests	**(39)**	(30)	(80)
	(605)	**(Loss)/profit for the financial period**	**(375)**	39	(502)
25	**(14)**	Preference dividends	**(9)**	(9)	(17)
	(619)	**(Loss)/profit for the financial period attributable to equity shareholders**	**(384)**	30	(519)
26	**(318)**	Ordinary dividends	**(197)**	(321)	(857)
	(937)	**Retained loss for the financial period**	**(581)**	(291)	(1,376)

*Restated for the effect of Financial Reporting Standard 19.

6 months 2002 €m		6 months 2002 £m	Restated* 6 months 2001	Restated* Full year 2001
	Earnings per share			
44.2c	Operating profit on an achieved profit basis before amortisation of goodwill and exceptional items, after tax, attributable to equity shareholders in respect of continuing operations	**27.4p**	27.5p	56.1p
(27.4)c	(Loss)/profit attributable to equity shareholders	**(17.0)p**	1.3p	(23.1)p
(27.4)c	(Loss)/profit attributable to equity shareholders – diluted	**(17.0)p**	1.3p	(23.0)p

Information on the achieved profit basis

Basis of preparation

The achieved profit statement on page 10 includes the results of the Group's life operations reported under the achieved profit basis combined with the modified statutory basis results of the Group's non-life operations set out on pages 18 to 27. In the directors' opinion, the achieved profit basis provides a more accurate reflection of the performance of the Group's life operations year on year than results under the modified statutory basis. The achieved profit methodology used is in accordance with the guidance on "Supplementary reporting for long-term insurance business (the achieved profits method)" circulated by the Association of British Insurers in December 2001. Further details on the methodology and assumptions are set out on pages 15 to 17.

The results of the Group's life operations under the modified statutory basis, which is the basis used in the annual statutory accounts, can be found on pages 18 to 27.

The contribution from the Group's share of the alliance with The Royal Bank of Scotland Group plc (RBSG) is incorporated within the achieved operating profit. Goodwill amortised in the period in respect of the Group's holding in the associated company, RBS Life Investments Limited, is included within the 'Amortisation of goodwill' on page 10.

The results for the six-month periods to 30 June 2002 and 30 June 2001 are unaudited but have been reviewed by the auditor, Ernst & Young LLP. Their review report in respect of 30 June 2002 is included on page 28. The interim accounts do not constitute statutory accounts as defined in section 240 of the Companies Act 1985.

Components of total life achieved profit

Total life achieved profit, including the Group's share from the alliance with RBSG, comprises the following components, the first three of which in aggregate are referred to as life achieved operating profit:

- new business contribution written during the year including value added between the point of sale and end of year;
- the profit from existing business equal to:
  - the expected return on the value of the in-force business at the beginning of the period,
  - experience variances caused by the differences between the actual experience during the period and expected experience based on the operating assumptions used to calculate the start of year value,
  - the impact of changes in operating assumptions including risk margins;
- the expected investment return on the shareholders' net worth, based upon assumptions applying at the start of the year;
- investment return variances caused by differences between the actual return in the period and the expected experience based on economic assumptions used to calculate the start of year value; and
- the impact of changes in economic assumptions in the period.

	6 months 2002 £m	6 months 2001* £m	Full year 2001* £m
New business contribution (after the effect of solvency margin)	**237**	227	479
Profit from existing business – expected return	**414**	417	848
– experience variances	**(17)**	(7)	(18)
– operating assumption changes	**(3)**	50	17
Expected return on shareholders' net worth	**165**	162	339
Life achieved operating profit before tax and exceptional items	**796**	849	1,665
Exceptional items**	**–**	–	(12)
Investment return variances	**(854)**	(742)	(1,632)
Effect of economic assumption changes	**–**	143	1
Total life achieved (loss)/profit before tax	**(58)**	250	22
Tax on operating profit	**(241)**	(261)	(511)
Tax on other ordinary activities	**253**	183	499
Total life achieved (loss)/profit after tax	**(46)**	172	10

* The other life and savings result has been reclassified to non-insurance.

**Exceptional items comprise integration costs.

New business contribution

The following table sets out the contribution from new business written by the long-term business operations. The contribution generated by new business written during the period is the present value of the projected stream of after-tax distributable profit from that business. Contribution before tax is calculated by grossing up the contribution after-tax at the full corporation tax rate for UK business and at appropriate rates of tax for other countries.

	Annual premium equivalent*			New business contribution	
	6 months 2002 £m	6 months 2001 £m	Local currency growth %	6 months 2002 £m	6 months 2001 £m
United Kingdom	**676**	606	12%	**164**	164
Europe (excluding UK)					
France	**110**	121	(10%)	**34**	35
Ireland	**66**	51	30%	**17**	14
Italy	**69**	55	25%	**16**	15
Netherlands (including Belgium and Luxembourg)	**63**	75	(15%)	**10**	11
Poland – Life	**16**	17	(6%)	**6**	4
– Pensions	**11**	13	(15%)	**–**	1
Spain	**63**	50	26%	**33**	23
Other	**45**	39	12%	**(3)**	2
International	**83**	57	44%	**12**	3
Total annualised premiums	**1,202**	1,084	11%		
Total new business contribution before effect of solvency margin**				**289**	272
Effect of solvency margin				**(52)**	(45)
Total new business contribution including effect of solvency margin				**237**	227

* Annual premium equivalent represents regular premiums plus 10% of single premiums.

**New business contribution before effect of solvency margin includes minority interests in 2002 of £28 million (six months to 30 June 2001: £21 million). This comprises minority interests in France of £2 million (six months to 30 June 2001: £2 million), Italy £8 million (six months to 30 June 2001: £6 million), Poland £1 million (six months to 30 June 2001: £1 million) and Spain £17 million (six months to 30 June 2001: £12 million).

New business contributions have been calculated using the same economic assumptions as those used to determine the embedded values as at the beginning of each year and operating assumptions used to determine the embedded values as at the end of the period. The effect of solvency margin represents the impact of holding the minimum European Union (EU) solvency margin (or equivalent for non-EU operations) and discounting to present value the projected future releases from the solvency margin to shareholders.

Analysis of life achieved operating profit

Life achieved operating profit is calculated on an after-tax basis and then grossed up at the full rate of corporation tax for UK business and at appropriate rates of tax for other countries.

	6 months 2002 £m	6 months 2001 £m	Full year 2001 £m
United Kingdom	**424**	465	850
Europe (excluding UK)			
France	**111**	110	227
Ireland	**37**	37	79
Italy	**30**	24	55
Netherlands (including Belgium and Luxembourg)	**87**	93	221
Poland – Life	**32**	23	65
– Pensions	**15**	21	34
Spain	**38**	31	80
Other	**–**	28	18
International	**22**	17	36
Total life achieved operating profit before tax and exceptional items*	**796**	849	1,665

*Life achieved operating profit includes minority interests in six months to 30 June 2002 of £43 million (six months to 30 June 2001: £35 million; full year 2001: £84 million). This comprises minority interests in France of £4 million (six months to 30 June 2001: £4 million; full year 2001: £8 million), Italy £14 million (six months to 30 June 2001: £10 million; full year 2001: £27 million), Poland £7 million (six months to 30 June 2001: £8 million; full year 2001: £15 million), Spain £18 million (six months to 30 June 2001: £13 million; full year 2001: £34 million).

Embedded value of life business

	6 months 2002 £m	6 months 2001 £m	Full year 2001 £m
Embedded value at the beginning of the period	**11,063**	11,234	11,234
Total life achieved (loss)/profit after tax	**(46)**	172	18
Exchange rate movements	**209**	(46)	(97)
Embedded value of businesses acquired/(disposed)*	**13**	(109)	84
Amounts injected into life operations	**15**	106	175
Amounts released from life operations	**(467)**	(220)	(351)
Embedded value at the end of the period**	**10,787**	11,137	11,063

* Embedded value from businesses acquired in 2002 represents the life subsidiary of DBS Hong Kong of £13 million. Embedded value from businesses acquired in 2001 comprises Risparmio and Eurovita in Italy (£120 million), the life operations of Unicaja, Caixa Galicia and Caja España in Spain (£64 million), Hungary (£11 million) and The Insurance Corporation of Singapore (£25 million). Embedded value from business disposed of in 2001 comprises NU Vita (Italy) (£16 million), Greece (£3 million) and Canada (£117 million).

**Embedded value at the end of the period includes minority interests in 2002 of £366 million (30 June 2001: £224 million; 31 December 2001: £347 million). This comprises minority interests in France of £40 million (30 June 2001: £35 million; 31 December 2001: £34 million), Italy £150 million (30 June 2001: £71 million; 31 December 2001: £149 million), Poland £57 million (30 June 2001: £52 million; 31 December 2001: £55 million), Spain £117 million (30 June 2001: £62 million; 31 December 2001: £107 million) and Other Europe £2 million (30 June 2001: £4 million; 31 December 2001: £2 million).

Segmental analysis of embedded value of life business

	Net worth at 30 June*		Valuation of in-force at 30 June**		Embedded value at 30 June	
	2002 £m	2001 £m	**2002 £m**	2001 £m	**2002 £m**	2001 £m
United Kingdom	**1,600**	1,754	**3,931**	4,275	**5,531**	6,029
Europe (excluding UK)						
France	**891**	875	**417**	409	**1,308**	1,284
Ireland	**208**	202	**269**	277	**477**	479
Italy	**181**	98	**120**	76	**301**	174
Netherlands (including Belgium and Luxembourg)	**969**	1,371	**955**	748	**1,924**	2,119
Poland	**125**	109	**257**	241	**382**	350
Spain	**115**	65	**218**	151	**333**	216
Other	**60**	57	**58**	67	**118**	124
International	**311**	293	**102**	69	**413**	362
	4,460	4,824	**6,327**	6,313	**10,787**	11,137

* The shareholders' net worth comprises the market value of the shareholders' funds and the shareholders' interest in the surplus held in the non-profit component of the long-term business funds determined on a statutory solvency basis and adjusted to add back any non-admissible assets.

**The net worth includes £2,400 million (30 June 2001: £2,100 million) in respect of minimum statutory solvency margin requirements that are supported by shareholders' capital. The effect of holding the minimum statutory solvency margin and allowing for projected future releases was £740 million (30 June 2001: £660 million).

Minority interest in life achieved profit

	Shareholders' interest 6 months 2002 £m	**Minority interest 6 months 2002 £m**	**Group 6 months 2002 £m**	Group 6 months 2001 £m	Group Full year 2001 £m
New business contribution before effect of solvency margin	**261**	**28**	**289**	272	591
Effect of solvency margin	**(46)**	**(6)**	**(52)**	(45)	(112)
New business contribution including effect of solvency margin	**215**	**22**	**237**	227	479
Life achieved operating profit before tax and exceptional items	**753**	**43**	**796**	849	1,665
Total life achieved (loss)/profit before tax	**(87)**	**29**	**(58)**	250	22
Attributed tax	**22**	**(10)**	**12**	(78)	(12)
Total life achieved (loss)/profit after tax	**(65)**	**19**	**(46)**	172	10
Closing life embedded value	**10,421**	**366**	**10,787**	11,137	11,063

Methodology

(a) Life achieved profit

The achieved profit method of financial reporting is designed to recognise profit as it is earned over the life of an insurance policy. The total profit recognised over the lifetime of a policy is the same as under the modified statutory basis of reporting, but the timing of recognition is different.

Distributable profits from long-term businesses arise when they are released to shareholders following actuarial valuations. These are carried out in accordance with statutory requirements designed to ensure and demonstrate solvency in long-term business funds.

Future distributable profits will depend on experience in a number of areas such as investment return, discontinuance rates, mortality and administration costs. Using realistic assumptions of future experience, we can project releases to shareholders arising in future years from the business in-force and associated minimum statutory solvency margin.

The life achieved profit reflects current performance by measuring the movement, from the beginning to the end of the year, in the present value of projected releases to shareholders from the business in-force and associated minimum statutory margin, together with the movement in the net assets of the long-term operations, adjusted for any amounts released from or invested in life operations.

The present value of the projected releases to shareholders is calculated by discounting back to the current time using a risk discount rate. The risk discount rate is a combination of a discount rate to reflect the time value of money and a risk margin to make prudent allowance for the risk that experience in future years may differ from the assumptions referred to above.

The calculations are carried out on an after-tax basis and the profits are then grossed up for tax at the full rate of corporation tax for the United Kingdom and at an appropriate rate for each of the other countries.

(b) Embedded value

The shareholders' interest in the long-term business operations is represented by the embedded value. The embedded value is the total of the net assets of the long-term operations and the present value at risk discount rates (which incorporate a risk margin) of the projected releases to shareholders arising from the business in-force, less a deduction for the effect of holding the minimum statutory solvency margin. This effect of solvency margin is the difference between the nominal value of the solvency margin and the present value at risk discount rates of the projected release of the solvency margin and investment earnings on the assets deemed to back the solvency margin.

For with-profit funds in the United Kingdom and Ireland, for the purpose of recognising the value of the estate, it is assumed that terminal bonuses are increased to exhaust all of the free assets over the future lifetime of the in-force with-profit policies.

Principal economic assumptions

The principal economic assumptions used are as follows:

	United Kingdom				France			
	30 June 2002	31 December 2001	30 June 2001	31 December 2000	**30 June 2002**	31 December 2001	30 June 2001	31 December 2000
Risk discount rate	**7.7%**	7.7%	7.9%	7.4%	**8.6%**	8.6%	8.5%	8.5%
Pre-tax investment returns:								
Base government fixed interest	**5.0%**	5.0%	5.3%	4.7%	**5.1%**	5.1%	5.0%	5.0%
Ordinary shares	**7.5%**	7.5%	7.8%	7.2%	**7.1%**	7.1%	7.0%	7.0%
Property	**6.5%**	6.5%	6.8%	6.2%	**6.6%**	6.6%	6.5%	6.5%
Future expense inflation	**3.7%**	3.7%	3.7%	3.7%	**2.5%**	2.5%	2.5%	2.5%
Tax rate	**30.0%**	30.0%	30.0%	30.0%	**36.4%**	36.4%	37.8%	37.8%

	Ireland				Italy			
	30 June 2002	31 December 2001	30 June 2001	31 December 2000	**30 June 2002**	31 December 2001	30 June 2001	31 December 2000
Risk discount rate	**9.3%**	9.3%	9.4%	9.1%	**7.6%**	7.6%	7.5%	7.5%
Pre-tax investment returns:								
Base government fixed interest	**5.3%**	5.3%	5.6%	5.3%	**5.3%**	5.3%	5.3%	5.3%
Ordinary shares	**8.3%**	8.3%	8.6%	8.3%	**8.3%**	8.3%	8.3%	8.3%
Property	**6.8%**	6.8%	7.1%	6.8%	**6.8%**	6.8%	6.8%	6.8%
Future expense inflation	**4.0%**	4.0%	5.0%	5.0%	**3.3%**	3.3%	3.3%	3.3%
Tax rate	**14.0%**	16.0%	18.0%	20.0%	**41.0%**	41.0%	43.0%	43.0%

	Netherlands				Poland – Life			
	30 June 2002	31 December 2001	30 June 2001	31 December 2000	**30 June 2002**	31 December 2001	30 June 2001	31 December 2000
Risk discount rate	**8.0%**	8.0%	8.0%	8.0%	**18.5%**	18.5%	20.0%	20.0%
Pre-tax investment returns:								
Base government fixed interest	**5.1%**	5.1%	5.0%	5.0%	**12.5%**	12.5%	12.5%	12.5%
Ordinary shares	**8.1%**	8.1%	7.9%	7.9%	**12.5%**	12.5%	12.5%	12.5%
Property	**6.6%**	6.6%	6.5%	6.5%	**n/a**	n/a	n/a	n/a
Future expense inflation	**2.5%**	2.5%	2.5%	2.5%	**9.2%**	9.2%	9.2%	9.2%
Tax rate	**25.0%**	25.0%	25.0%	25.0%	**28.0%**	28.0%	28.0%	28.0%

	Poland – Pensions				Spain			
	30 June 2002	31 December 2001	30 June 2001	31 December 2000	**30 June 2002**	31 December 2001	30 June 2001	31 December 2000
Risk discount rate	**16.9%**	16.9%	17.3%	17.3%	**8.3%**	8.3%	8.4%	8.4%
Pre-tax investment returns:								
Base government fixed interest	**12.5%**	12.5%	12.5%	12.5%	**5.3%**	5.3%	5.4%	5.4%
Ordinary shares	**12.5%**	12.5%	12.5%	12.5%	**8.3%**	8.3%	8.4%	8.4%
Property	**n/a**	n/a	n/a	n/a	**6.8%**	6.8%	6.9%	6.9%
Future expense inflation	**9.2%**	9.2%	9.2%	9.2%	**3.2%**	3.2%	4.0%	4.0%
Tax rate	**28.0%**	28.0%	28.0%	28.0%	**35.0%**	35.0%	35.0%	35.0%

Other assumptions

- Current tax legislation and rates have been assumed to continue unaltered, except where changes in future tax rates have been announced.
- Assumed future mortality, morbidity and lapse rates have been derived from an analysis of Aviva's recent operating experience.
- The management expenses of Aviva attributable to long-term business operations have been split between expenses relating to the acquisition of new business and to the maintenance of business in-force. Certain expenses of an exceptional nature have been identified separately and the discounted value of projected exceptional costs has been deducted from the value of in-force business. A realistic estimate of future fund management expenses that will be charged to long-term businesses by Group companies not included in the long-term business covered by the achieved profits method has been included within the value of in-force business.
- It has been assumed that there will be no changes to the methods and bases used to calculate the statutory technical provisions and current surrender values.
- The value of in-force business allows for future premiums under recurring single premium business where collection of future single premiums is expected and where the receipt of further single premiums is not regarded as new business at the point of receipt. It does not allow for future premiums under non-contractual increments, or for future Department of Social Security (DSS) rebate premiums, and the value arising therefrom is included in the value of new business when the premiums are received.
- The value of the in-force business has been determined after allowing for the effect of holding solvency margins equal to the minimum EU solvency requirement (or equivalent for non-EU operations). Solvency margins relating to with-profit business are assumed to be covered by the surplus within the with-profit funds and no effect has been attributed to shareholders.
- Bonus rates on with-profit business have been set at levels consistent with the economic assumptions and Aviva's medium-term bonus plans. The distribution of profit between policyholders and shareholders within the with-profit funds assumes that the shareholder interest in conventional with-profit business in the United Kingdom and Ireland continues at the current rate of one-ninth of the cost of bonus.

Alternative assumptions

Economic assumptions

The table below shows the sensitivity to a one percentage point increase in interest rates and in the discount rate for new business contribution and embedded value.

	New business contribution		Embedded value	
	Interest rates £m	Discount rates £m	Interest rates £m	Discount rates £m
United Kingdom	13	(25)	(250)	(300)
Europe (excluding UK)				
France	4	(4)	(60)	(70)
Ireland	2	(2)	(5)	(15)
Italy	1	(1)	–	(5)
Netherlands (including Belgium and Luxembourg)	3	(4)	(110)	(110)
Poland – Life	–	(1)	–	(10)
– Pensions	–	–	–	(10)
Spain	1	(2)	(10)	(15)
Other	–	–	–	–
International	(1)	(2)	(10)	(10)
	23	(41)	(445)	(545)

Profits are affected by a change in underlying interest rates. When interest rates change, expected future investment returns will also change and this in turn will affect projected cash flows. A change in interest rates will also result in a change in the discount rate used to calculate the present value of the projected cash flows. The impact of an increase of one percentage point in interest rates incorporates all such changes. In addition, the impact on embedded value includes the impact of the reduction that would occur in the market value of fixed interest investments if interest rates increased by one percentage point. Market values of other asset classes are assumed to reduce in proportion to movements in the market value of fixed interest investments of an appropriate term.

The impact of an increase of one percentage point in the discount rate is calculated with all other assumptions remaining unchanged.

Non-economic assumptions

Sensitivity calculations have been performed to identify the non-economic assumptions to which new business contribution and the value of in-force business within embedded value are particularly sensitive. The calculations have been based on similar percentage movements in each assumption from the base assumption used to calculate the published new business contribution and value of in-force. Based on this, the Group's new business contribution is most sensitive to a change in discontinuance rates, whereas the value of in-force is broadly equally sensitive to changes in discontinuance rates, mortality rates and future maintenance expense levels.

Summarised consolidated profit and loss account
Modified statutory basis
For the six months ended 30 June 2002

Page	6 months 2002 €m		6 months 2002 £m	Restated* 6 months 2001 £m	Restated* Full year 2001 £m
		Premium income (after reinsurance) and investment sales – continuing operations			
23	**14,413**	Life premiums, including share of associates' premiums	**8,936**	8,371	17,590
23	**1,003**	Investment sales	**622**	763	1,475
24	**865**	Health premiums	**536**	509	841
	16,281		**10,094**	9,643	19,906
24	**7,098**	General insurance premiums	**4,401**	4,352	8,433
	23,379	**Total continuing operations**	**14,495**	13,995	28,339
24	**–**	Discontinued operations – general insurance premiums	**–**	1,103	1,103
	23,379	**Total**	**14,495**	15,098	29,442
		Operating profit			
24	**925**	Modified statutory life profit	**574**	600	1,194
24	**52**	Health	**32**	32	70
	5	Fund management	**3**	24	29
25	**774**	General insurance	**480**	427	945
	(11)	Non-insurance operations	**(7)**	1	7
	(155)	Corporate costs	**(96)**	(81)	(187)
	(335)	Unallocated interest charges	**(208)**	(215)	(426)
	(34)	Wealth management	**(21)**	(60)	(99)
	1,221	**Operating profit – continuing operations before tax, amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items**	**757**	728	1,533
25	**–**	Discontinued operations	**–**	(21)	(21)
	1,221		**757**	707	1,512
	(74)	Amortisation of goodwill	**(46)**	(30)	(87)
	(55)	Amortisation of acquired additional value of in-force long-term business	**(34)**	(17)	(64)
	–	Financial Services Compensation Scheme levy	**–**	(14)	(31)
	–	Integration costs	**–**	–	(59)
	1,092	Operating profit before tax	**677**	646	1,271
	(847)	Short-term fluctuation in investment return	**(525)**	(446)	(988)
	(42)	Change in the equalisation provision	**(26)**	(22)	(56)
23	**(26)**	(Loss)/profit on the disposal of subsidiary undertakings	**(16)**	247	287
	177	**Profit on ordinary activities before tax**	**110**	425	514
25	**(67)**	Tax on profit on ordinary activities	**(42)**	(133)	(198)
	110	**Profit on ordinary activities after tax**	**68**	292	316
	(49)	Minority interests	**(30)**	(25)	(57)
	61	**Profit for the financial period**	**38**	267	259
25	**(14)**	Preference dividends	**(9)**	(9)	(17)
	47	**Profit for the financial period attributable to equity shareholders**	**29**	258	242
26	**(318)**	Ordinary dividends	**(197)**	(321)	(857)
	(271)	**Retained loss transferred to reserves**	**(168)**	(63)	(615)

*Restated for the effect of Financial Reporting Standard 19.

Page	6 months 2002		6 months 2002	Restated* 6 months 2001	Restated* Full year 2001
		Earnings per share – modified statutory basis			
26	**34.6c**	Operating profit before amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items, after tax, attributable to equity shareholders in respect of continuing operations	**21.5p**	20.6p	43.2p
26	**2.1c**	Profit attributable to equity shareholders	**1.3p**	11.5p	10.8p
26	**2.1c**	Profit attributable to equity shareholders – diluted	**1.3p**	11.5p	10.7p
26	**14.11c**	**Dividend per share**	**8.75p**	14.25p	38.0p

Consolidated statement of total recognised gains and losses

For the six months ended 30 June 2002

Page		6 months 2002 £m	Restated* 6 months 2001 £m	Restated* Full year 2001 £m
18	**Profit for the financial period**	**38**	267	259
	Movement in internally-generated additional value of in-force long-term business**	**(413)**	(228)	(761)
	Foreign exchange gains/(losses)	**270**	35	(191)
	Total recognised (losses)/gains arising in the period	**(105)**	74	(693)

* Restated for the effect of Financial Reporting Standard 19.

**Stated before the effect of foreign exchange movements, which are reported within the foreign exchange gains/(losses) line.

Reconciliation of movements in consolidated shareholders' funds

For the six months ended 30 June 2002

Page		6 months 2002 £m	Restated* 6 months 2001 £m	Restated* Full year 2001 £m
	Shareholders' funds at the beginning of the period, as originally reported	**11,872**	13,633	13,633
	Prior year adjustment**	**(120)**	(346)	(346)
	Shareholders' funds at the beginning of the period, as restated	**11,752**	13,287	13,287
	Total recognised (losses)/gains arising in the period	**(105)**	74	(693)
25	Dividends	**(206)**	(330)	(874)
	Increase in share capital	**11**	16	29
	Other movements	**7**	5	3
	Shareholders' funds at the end of the period	**11,459**	13,052	11,752

* Restated for the effect of Financial Reporting Standard 19.

**The prior year adjustment reflects the implementation of Financial Reporting Standard 19 (page 22).

Summarised consolidated balance sheet

As at 30 June 2002

	30 June 2002 £m	Restated* 30 June 2001 £m	Restated* 31 December 2001 £m
Assets			
Goodwill	**1,135**	750	1,141
Investments			
Land and buildings	**836**	768	857
Investments in Group undertakings and participating interests	**304**	284	282
Variable yield securities	**3,835**	5,016	4,168
Fixed interest securities	**8,302**	8,300	9,288
Mortgages and loans, net of non-recourse funding	**1,208**	1,139	1,236
Deposits	**910**	1,839	1,346
Additional value of in-force long-term business	**5,603**	6,411	5,948
	20,998	23,757	23,125
Reinsurers' share of technical provisions	**3,304**	2,924	3,543
Assets of the long-term business	**155,541**	144,999	151,003
Other assets	**10,298**	8,641	9,512
Total assets	**191,276**	181,071	188,324
Liabilities			
Shareholders' funds			
Equity	**11,259**	12,852	11,552
Non-equity	**200**	200	200
Minority interests	**681**	560	651
	12,140	13,612	12,403
Subordinated debt	**1,185**	–	1,157
Total capital, reserves and subordinated debt	**13,325**	13,612	13,560
Liabilities of the long-term business	**150,120**	140,023	145,644
General insurance liabilities	**17,783**	18,014	17,825
Borrowings	**2,254**	2,686	2,662
Other creditors and provisions	**7,794**	6,736	8,633
Total liabilities	**191,276**	181,071	188,324

*Restated for the effect of Financial Reporting Standard 19.

Approved by the Board on 31 July 2002.

Consolidated cash flow statement

For the six months ended 30 June 2002

	6 months 2002 £m	6 months 2001 £m	Full year 2001 £m
Net cash inflow from operating activities, excluding exceptional items and merger transaction costs*	**586**	266	701
Net cash outflow from servicing of finance	**(91)**	(82)	(246)
Corporation tax received/(paid) (including advance corporation tax)	**48**	(77)	(39)
Net purchases of tangible fixed assets	**(32)**	(76)	(114)
	511	31	302
Exceptional items and merger transaction costs paid*	**(523)**	(380)	(491)
Acquisitions and disposals of subsidiary and associated undertakings	**114**	1,261	853
Equity dividends paid	**(535)**	(535)	(856)
Proceeds from issue of subordinated debt	**–**	–	1,157
Net cash (outflow)/inflow from other financing activities:			
Issue of share capital	**10**	11	29
Net (repayment)/drawdown of loans	**(151)**	73	94
Net cash flows	**(574)**	461	1,088

	6 months 2002 £m	6 months 2001 £m	Full year 2001 £m
Cash flows were invested as follows:			
Increase/(decrease) in cash holdings	**135**	(114)	(69)
Net (sales)/purchases of investments	**(564)**	481	1,223
Non-trading cash (inflow from)/outflow to long-term business operations	**(145)**	94	(66)
Net investment of cash flows	**(574)**	461	1,088

The cash flows presented in this statement relate to non-long-term business transactions only. Long-term business profits are included as net cash inflow/(outflow) from operating activities only to the extent that they have been remitted to shareholders by way of dividends from life operations.

*Payments to the Berkshire Hathaway Group for reinsurance purchased in December 2000 to secure protection against any adverse impact of the run-off of London Market claims reserves are now shown within exceptional items.

Notes to the accounts

1 – Basis of preparation

(a) The results for the six months to 30 June 2002 have been prepared on the basis of the accounting policies set out in CGNU plc's 2001 Annual Report and Accounts, except for deferred tax set out in paragraph (e) below. The results for the six months to 30 June 2002 and 2001 are unaudited but have been reviewed by the auditor. The interim accounts do not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The results for the full year 2001 have been taken from the Group's 2001 Annual Report and Accounts. The auditor has reported on the 2001 accounts and their report was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985. The Group's 2001 Annual Report and Accounts have been filed with the Registrar of Companies.

(b) 'Discontinued operations' disclosures relate to the disposal of the general insurance business in the United States, which completed on 1 June 2001. The results of all other operations are entitled 'continuing operations'.

(c) The contribution from the Group's share of the alliance with The Royal Bank of Scotland Group plc (RBSG) is incorporated within the modified statutory life profit. Goodwill amortised in the period in respect of the Group's holding in the associated company, RBS Life Investments Limited, is included within 'Amortisation of goodwill' on page 18.

(d) Financial Reporting Standard (FRS) 17 'Retirement Benefits' is not mandatory for the Group until the year ended 31 December 2003. The Group has continued to account for pension costs in accordance with SSAP24.

(e) FRS19 is effective for the year ended 31 December 2002. The principal impact of the change from the accounting policy applied under SSAP15 is to provide additional deferred tax on unrealised appreciation of investments. The additional deferred tax provision results in a reduction in the fund for future appropriations for with-profit life business and a reduction in the profit and loss account reserve for general insurance business. In the case of non-profit business the establishment of an additional deferred tax provision has a neutral effect on shareholders' funds. This is because the reduction in the profit and loss account reserve is compensated by a corresponding increase in the revaluation reserve representing additional value of in-force long-term business. The Group has chosen to adopt the discounting option for deferred tax purposes.

The effects of implementing FRS19 are as follows:

(i) The provision for deferred tax at 30 June 2002 has increased by £829 million (30 June 2001: £1,273 million; 31 December 2001: £945 million). The increase in provision has resulted in the following:

	30 June 2002 £m	30 June 2001 £m	31 December 2001 £m
With-profit business			
Reduction in fund for future appropriations	**665**	974	735
Non-profit business			
Increase in additional value of in-force business	**90**	90	90
General insurance business and other			
Reduction in shareholders' funds	**74**	209	120
Increase in deferred tax provision	**829**	1,273	945

(ii) The tax charge in the profit and loss account has decreased by £46 million in the six months to 30 June 2002 (six months to 30 June 2001: decrease of £137 million; full year 2001: decrease of £226 million).

2 – Exchange rates

The euro rates employed in this report are an average rate of 1 euro = £0.62 (six months to 30 June 2001: 1 euro = £0.62; full year 2001: 1 euro = £0.62) and a closing rate of 1 euro = £0.65 (30 June 2001: 1 euro = £0.60; 31 December 2001: 1 euro = £0.61).

3 – Acquisitions

On 31 May 2002, the Group extended its bancassurance partnership with DBS Group Holdings Limited (DBS) and acquired 100% of the issued equity share capital of Dao Heng Assurance and DBS Kwong On Insurance (together DBS Hong Kong), DBS's life and general insurance subsidiary in Hong Kong. Total cash consideration was £31 million and net assets on acquisition of DBS Hong Kong were £16 million, giving rise to goodwill of £15 million. Further amounts may be payable depending on the achievement of performance targets by DBS Hong Kong.

4 – Disposals

The net (loss)/profit on the disposal of subsidiary undertakings comprises:

		6 months 2002 £m	6 months 2001 £m	Full year 2001 £m
Long-term savings businesses				
Canada		–	(5)	(5)
General insurance businesses				
UK	(a)	**(20)**	–	–
France	(b)	**6**	–	–
New Zealand		–	52	52
United States		–	125	125
Belgium		–	–	46
Other businesses				
UK		–	70	70
France	(c)	**1**	–	–
Other small operations		**(3)**	5	(1)
		(16)	247	287

(a) In January 2002, the Group completed the disposal of its wholly-owned subsidiary, Sabre Insurance Company Limited, for a total consideration of £14 million. The net assets disposed of amounted to £24 million and the loss on disposal, after transaction costs and the goodwill write-back of £10 million, was £20 million.

(b) In May 2002, the Group completed the disposal of its wholly-owned subsidiary, CGU Courtage, for a total consideration of £189 million. The net assets disposed of amounted to £137 million and the profit on disposal, after transaction costs, warranties and indemnities, was £6 million.

(c) In May 2002, the Group completed the disposal of its wholly-owned subsidiary, Royal Saint Georges Banque for a total consideration of £16 million. The net assets disposed of amounted to £15 million and the profit on disposal, after transaction costs, was £1 million.

5 – Geographical analysis of life and pensions and investment sales – new business and total income

	New business sales				Premium income (after reinsurance) and investment sales		
	New single premiums		New regular premiums				
	6 months 2002 £m	6 months 2001 £m	6 months 2002 £m	6 months 2001 £m	6 months 2002 £m	6 months 2001 £m	Full year 2001 £m
Life and pensions sales							
United Kingdom – group	**3,294**	3,203	**332**	271	**4,525**	4,370	8,913
– associates	**75**	83	**7**	6	**139**	153	361
	3,369	3,286	**339**	277	**4,664**	4,523	9,274
Europe (excluding UK)							
France	**888**	1,015	**21**	20	**1,027**	1,127	2,185
Ireland	**162**	229	**50**	28	**292**	321	658
Italy	**508**	369	**18**	18	**630**	440	1,116
Netherlands (including Belgium and Luxembourg)	**274**	277	**36**	47	**651**	670	1,290
Poland – Life	**8**	3	**15**	17	**147**	145	295
– Pensions	**4**	–	**11**	13	**242**	231	433
Spain	**351**	271	**28**	23	**453**	351	1,034
Other	**96**	80	**35**	31	**266**	218	492
International	**420**	254	**41**	32	**564**	345	813
Total life and pensions sales (including share of associates)	**6,080**	5,784	**594**	506	**8,936**	8,371	17,590
Investment sales							
United Kingdom	**302**	550	**11**	7	**313**	557	816
Netherlands	**56**	40	–	–	**56**	40	85
Other Europe	**53**	82	–	–	**53**	82	227
International	**200**	84	–	–	**200**	84	347
Total long-term savings (including share of associates)	**6,691**	6,540	**605**	513	**9,558**	9,134	19,065

Single premiums are those relating to products issued by the Group, which provide for the payment of one premium only.

Regular premiums are those where there is a contractual obligation to pay on an ongoing basis.

6 – Geographical analysis of modified statutory life operating profit

	6 months 2002 £m	6 months 2001 £m	Full year 2001 £m
United Kingdom*			
With-profit	**122**	146	275
Non-profit	**245**	248	414
Europe (excluding UK)			
France	**71**	75	160
Ireland	**17**	15	49
Italy	**19**	5	26
Netherlands (including Belgium and Luxembourg)	**70**	68	214
Poland – Life	**25**	19	39
– Pensions	**3**	7	7
Spain	**13**	12	36
Other	**(6)**	(9)	(21)
International	**(5)**	14	(5)
Total modified statutory life operating profit	**574**	600	1,194

*The other life and savings result has been reclassified to non-insurance.

7 – Geographical analysis of health premiums after reinsurance and operating result

(a) Premiums after reinsurance:

	6 months 2002 £m	6 months 2001 £m	Full year 2001 £m
United Kingdom	**142**	128	242
France	**55**	53	100
Netherlands	**339**	328	499
	536	509	841

(b) Operating result:

	Operating profit			Underwriting result		
	6 months 2002 £m	6 months 2001 £m	Full year 2001 £m	6 months 2002 £m	6 months 2001 £m	Full year 2001 £m
United Kingdom	**2**	4	8	**–**	2	4
France	**4**	4	9	**(1)**	(1)	(2)
Netherlands	**26**	24	53	**(6)**	(11)	(15)
	32	32	70	**(7)**	(10)	(13)

8 – Geographical analysis of general insurance premiums after reinsurance and operating result

(a) General insurance premiums after reinsurance:

	6 months 2002 £m	6 months 2001 £m	Full year 2001 £m
United Kingdom	**2,376**	2,454	4,777
Europe (excluding UK)			
France	**275**	389	700
Ireland	**255**	236	456
Netherlands	**241**	227	387
Other	**244**	301	499
International			
Australia and New Zealand	**335**	256	583
Canada	**509**	436	878
Other	**166**	53	153
Continuing operations	**4,401**	4,352	8,433
Discontinued operations	**–**	1,103	1,103
	4,401	5,455	9,536

8 – Geographical analysis of general insurance premiums after reinsurance and operating result continued

(b) Operating result:

	Operating profit*			Underwriting result*		
	6 months 2002 £m	6 months 2001 £m	Full year 2001 £m	**6 months 2002 £m**	6 months 2001 £m	Full year 2001 £m
United Kingdom	**303**	254	590	**(35)**	(69)	(81)
Europe (excluding UK)						
France	**25**	34	58	**(5)**	(15)	(33)
Ireland	**21**	17	48	**(7)**	(10)	(7)
Netherlands	**11**	5	19	**(7)**	(12)	(14)
Other	**28**	15	41	**(3)**	(20)	(25)
International						
Australia and New Zealand	**24**	26	69	**(11)**	(8)	(1)
Canada	**39**	50	72	**(18)**	(16)	(56)
Other	**29**	26	48	**8**	(2)	(7)
Continuing operations	**480**	427	945	**(78)**	(152)	(224)
Discontinued operations	**–**	(21)	(21)	**–**	(173)	(173)
	480	406	924	**(78)**	(325)	(397)

*The general insurance operating profit and underwriting result are stated before the change in the equalisation provision of £26 million (six months to 30 June 2001: £22 million; full year to 31 December 2001: £56 million) and the Financial Services Compensation Scheme levy of £nil (six months to 30 June 2001: £14 million; full year to 31 December 2001: £31 million).

9 – Tax

The tax charge/(credit) in the profit and loss account comprises:

	6 months 2002 £m	Restated* 6 months 2001 £m	Restated* Full year 2001 £m
UK corporation tax	**(63)**	(15)	16
Overseas tax	**32**	90	80
Other	**(98)**	(121)	(264)
Total tax credit for the period	**(129)**	(46)	(168)
Tax attributable to the long-term business technical result	**171**	179	366
Charge to profit and loss account	**42**	133	198
Tax charge analysed between:			
Operating profit before tax, amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items			
– continuing operations	**235**	231	486
– discontinued operations	**–**	(7)	(7)
Profit on other ordinary activities	**(193)**	(91)	(281)
	42	133	198

*Restated for the effect of Financial Reporting Standard 19.

10 – Dividends

(a) The preference dividends in the profit and loss account comprise:

	6 months 2002 £m	6 months 2001 £m	Full year 2001 £m
Preference dividends	**9**	9	17

The preference dividends are in respect of the cumulative irredeemable preference shares of £1 each in issue.

10 – Dividends continued

(b) The ordinary dividends in the profit and loss account comprise:

	6 months 2002 £m	6 months 2001 £m	Full year 2001 £m
Ordinary dividends			
Interim – 8.75 pence (2001: 14.25 pence)	197	321	321
Final – (2001: 23.75 pence)	–	–	536
Total ordinary dividends	197	321	857

Irish shareholders who are due to be paid a dividend denominated in euros will receive a payment at the exchange rate prevailing on 31 July 2002.

11 – Earnings per share

(a) Basic earnings per share

	6 months 2002			Restated* 6 months 2001		Restated* Full year 2001	
	Before tax £m	Net of tax, minorities and preference dividend £m	Per share p	Net of tax, minorities and preference dividend £m	Per share p	Net of tax, minorities and preference dividend £m	Per share p
Operating profit – continuing operations before amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items	757	484	21.5	463	20.6	973	43.2
Adjusted for the following items:							
– Operating loss on discontinued operations	–	–	–	(14)	(0.6)	(14)	(0.6)
– Amortisation of goodwill	(46)	(46)	(2.0)	(30)	(1.3)	(87)	(3.9)
– Amortisation of acquired additional value of in-force long-term business	(34)	(27)	(1.2)	(12)	(0.5)	(49)	(2.2)
– Financial Services Compensation Scheme levy	–	–	–	(10)	(0.5)	(22)	(1.0)
– Integration costs	–	–	–	–	–	(51)	(2.3)
– Short-term fluctuation in investment return	(525)	(349)	(15.6)	(370)	(16.5)	(754)	(33.4)
– Change in the equalisation provision	(26)	(19)	(0.8)	(16)	(0.7)	(39)	(1.7)
– Net (loss)/profit arising on the disposal of subsidiary undertakings	(16)	(14)	(0.6)	247	11.0	285	12.7
Profit attributable to equity shareholders	110	29	1.3	258	11.5	242	10.8

*Restated for the effect of Financial Reporting Standard 19.

Earnings per share has been calculated based on the operating profit from continuing operations before amortisation of goodwill, amortisation of acquired additional value of in-force long-term business, exceptional items, after tax, attributable to equity shareholders, as well as on the profit attributable to equity shareholders, as the directors believe the former earnings per share figure provides a better indication of operating performance. The calculation of basic earnings per share uses a weighted average of 2,253 million (six months to 30 June 2001: 2,250 million; full year 2001: 2,250 million) ordinary shares in issue, after deducting shares owned by the employee share trusts as required by FRS14 'Earnings per share'.

The actual number of shares in issue at 30 June 2002 was 2,257 million (30 June 2001: 2,253 million; 31 December 2001: 2,255 million).

(b) Diluted earnings per share

	6 months 2002			Restated* 6 months 2001		Restated* Full year 2001	
	Total £m	Weighted average number of shares m	Per share p	Weighted average number of shares m	Per share p	Weighted average number of shares m	Per share p
Profit attributable to equity shareholders	29	2,253	1.3	2,250	11.5	2,250	10.8
Dilutive effect of options	–	6	–	2	–	4	(0.1)
Diluted earnings	29	2,259	1.3	2,252	11.5	2,254	10.7

*Restated for the effect of Financial Reporting Standard 19.

12 – Longer-term investment return

The longer-term investment return is calculated separately for each principal general insurance business and certain long-term business operations. In respect of equities and properties, the return is calculated by multiplying the opening market value of the investments, adjusted for sales and purchases during the period, by the longer-term rate of investment return. The longer-term rate of investment return is determined using consistent assumptions between operations, having regard to local economic and market forecasts of investment return. The allocated longer-term return for other investments is the actual income receivable for the period.

The principal assumptions underlying the calculation of the longer-term investment return are:

	Longer-term rates of return			
	Equities		Properties	
	2002	2001	**2002**	2001
United Kingdom	**8.1%**	8.1%	**6.6%**	6.6%
France	**7.5%**	7.5%	**6.5%**	6.5%
Ireland	**8.7%**	8.7%	**6.7%**	6.7%
Netherlands	**8.4%**	8.4%	**6.5%**	6.5%
Australia and New Zealand	**10.0%**	10.0%	**8.0%**	8.0%
Canada	**9.3%**	9.3%	**7.3%**	7.3%
United States	**9.3%**	9.3%	**7.3%**	7.3%

13 – Group capital structure

Shareholders' funds

Equity shareholders' funds fell to £11.3 billion (31 December 2001: £11.6 billion, restated) after the cost of the interim dividend declared of £197 million. Net asset value per ordinary share, based on equity shareholders' funds, fell to 511 pence per share (31 December 2001: 524 pence per share, restated) after adding back the equalisation provision of £283 million (31 December 2001: £272 million).

Capital employed

At 30 June 2002 capital employed in our operations was lower at £18.1 billion (31 December 2001: £19.5 billion, restated), primarily reflecting the £293 million reduction in shareholders' funds and the use of £1,188 million of assets employed in the business to reduce internal and external debt.

Capital employed by segment

	6 months 2002 £m	Restated* Full year 2001 £m
Long-term savings	**11,024**	11,307
General insurance and health	**4,613**	4,780
Other business	**316**	324
Corporate	**2,119**	2,947
	18,072	19,358
Disposed business – CGU Courtage	**–**	137
Total capital employed	**18,072**	19,495

Deployment of equity shareholders' funds

	6 months 2002					Restated* Full year 2001
	Equities £m	**Fixed income securities £m**	**Other investments £m**	**Other net assets £m**	**Total £m**	Total £m
Assets						
Long-term savings	**891**	**2,372**	**1,135**	**786**	**5,184**	5,115
General insurance, health, corporate and other business	**3,835**	**2,113**	**745**	**(780)**	**5,913**	6,910
	4,726	**4,485**	**1,880**	**6**	**11,097**	12,025
Goodwill					**1,372**	1,385
Additional value of in-force long-term business					**5,603**	5,948
Assets backing continuing operations					**18,072**	19,358
External debt					**(2,243)**	(2,651)
Internal debt					**(2,504)**	(3,284)
Subordinated debt					**(1,185)**	(1,157)
					12,140	12,266
Minority interests					**(681)**	(651)
Preference capital					**(200)**	(200)
Total continuing operations					**11,259**	11,415
Disposed business – CGU Courtage					**–**	137
Equity shareholders' funds					**11,259**	11,552

*Restated for the effect of Financial Reporting Standard 19.

Independent review report to Aviva plc

We have been instructed by the Company to review the financial information set out on pages 10 to 27 and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the above financial information. The financial information on pages 10 to 17 has been prepared in accordance with the achieved profit basis as set out under the methodology and principal economic assumptions sections on pages 15 to 17. The financial information on pages 18 to 27 has been prepared on the modified statutory solvency basis, which is the basis of accounting adopted in the annual audited accounts.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority, which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the above financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review, we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2002.

Ernst & Young LLP

London
31 July 2002

Shareholder information

Financial calendar 2002/2003

Ex-dividend date for 2002 interim dividend	25 September 2002
Record date for 2002 interim dividend	27 September 2002
Payment of interim 2002 dividend	15 November 2002
Announcement of long-term savings new business for 9 months to 30 September	24 October 2002
Preliminary announcement of 2002 results	26 February 2003

Dividend reinvestment plan

Shareholders are offered the opportunity to participate in the Company's Dividend Reinvestment Plan (the "Plan") which enables dividends to be reinvested in the Company's shares at reduced dealing costs.

Shareholders who have previously elected to join the Plan need take no further action as their cash dividend will automatically be used to purchase Aviva's shares, on or around the dividend payment date, in accordance with the terms of the Plan.

Shareholders who have not already joined the Plan and wish to do so should contact the Company's Registrar, at the address below, in order to obtain full details and a mandate form. Completed mandate forms must be returned to the Registrar by no later than 25 October 2002 in order to participate in the Plan for the 2002 interim dividend.

The Plan is available to ordinary shareholders, members of the Aviva Share Account and members of the Group's employee profit sharing schemes.

Shareholder enquiries

Shareholders who have any administrative enquiries about their shareholding in Aviva plc should contact the Company's Registrar:

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6DA

0870 600 3952

Internet addresses

There are various internet sites within the Group, most of which inter-link to enable quick reference direct to specific sites. Principal UK internet sites are as follows:

Aviva	www.aviva.com
UK long-term savings and general insurance	www.norwichunion.co.uk
Fund management	www.morleyfm.com
Buying a home	www.your-move.co.uk and www.assertahome.com

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