

Forward thinking: What does it mean to us and our customers?

At Aviva, we find new ways to deliver more fulfilling futures to our customers, and all our stakeholders. Forward thinking has been our business for 300 years. Today, it expresses our dedication to thinking beyond the immediate and the everyday, to building better tomorrows.

Forward thinking is at the heart of our business. It guides our daily actions, encourages us to look past what limits us now, and determines the steps that will carry us beyond those limits, tomorrow.

Within this report, you will find examples of forward thinking in action. Around the world, Aviva is a market leader in developing innovative new products and services as we seek to anticipate what people need and provide solutions.

Our vision of the future extends to recognising our responsibilities to society. We know that we must limit our impact on the environment in which we operate, for the benefit of future generations.

Richard Harvey
Group chief executive



For me it's an
overwhelming
sense of
the future
being out there
somewhere



A new racing challenge

Dee Caffari, supported by Aviva, is the first woman in history to sail single-handed, non-stop, around the world against the prevailing winds and currents.

Not content with one extraordinary record, she now plans to become the first woman to sail solo, non-stop around the world in both directions by competing in the gruelling 2008-09 Vendée Globe.

The inspiration and willpower that Dee embodied in completing the Aviva Challenge in May 2006 – an epic, 178-day journey the “wrong way” around the world – was a masterclass in skill, guts and determination.

She said: “When I was sailing against the winds deep in the Southern Ocean, when the storms seemed endless and the horrific conditions forced me into survival mode, I moved my goalposts closer and focused on getting to the next step, so I constantly felt I was making progress towards the finish line.

“Aviva’s support helped me to discover and define my own future in life, and helped me do my own forward thinking. Aviva is a company that helps you take control of your own destiny.”

Aviva is proud of its continuing partnership with Dee. She is determined to push back the boundaries of her sport and inspires others to do the same in their own lives. Her sustained focus on the future and looking ahead to fresh challenges epitomises our “Forward thinking” campaign.



You can find out more about Dee Caffari's challenges at www.avivaoceanracing.com






Dee Caffari
Record-breaking
yachtswoman

Structure and performance

Aviva is the world's fifth largest insurance group and the largest insurance services provider in the UK. We are one of the leading providers of life and pension products in Europe and are actively growing our long-term savings businesses in Asian markets, Australia and the USA. Our main activities are long-term savings, fund management and general insurance*.

We have premium income and investment sales of £41.5 billion and £364 billion of assets under management. We have 59,000 employees serving over 40 million customers.

UK	Europe	International and Morley
Total sales	Total sales	Total sales
£19,541m (2005: £16,472m)	£17,018m (2005: £15,581m)	£4,905m (2005: £3,841m)
PVNB ^{**} £11,146m	PVNB ^{**} £12,840m	PVNB ^{**} £1,866m
Investment sales £2,455m	Investment sales £891m	Investment sales £1,564m
Net written premiums £5,940m	Net written premiums £3,287m	Net written premiums £1,475m
£19,541m	£17,018m	£4,905m
Main operations	Main operations	Main operations
		
	Geographic presence	Geographic presence
	France Ireland Italy Netherlands Poland Spain Lithuania Turkey Hungary Czech Republic Romania	Singapore Hong Kong India China Russia Australia USA Canada Sri Lanka
→24-31	→32-41	→42-49
Read more about our performance and future direction on pages 24 to 31 of this report	Read more about our performance and future direction on pages 32 to 41 of this report	Read more about our performance and future direction on pages 42 to 49 of this report

* Typically includes motor, household, creditor, health, commercial motor, commercial property and commercial liability insurance.

** Present value of new business premium (PVNB^{**}) is equal to total single premium sales received in the year plus the discounted value of annual premiums expected to be received over the term of new contracts, and is expressed at the point of sale.

Strengths and highlights

We have a balanced portfolio that benefits from diversification of distribution, products and geography

We have achieved strong growth in sales and profits across our worldwide portfolio of businesses

We have completed the purchase of AmerUs in the United States, giving us greater access to the world's largest savings market

We have commenced significant new bancassurance partnerships in Ireland (with Allied Irish Banks) and in India (with Centurion Bank of Punjab)

Our European and International businesses have announced their confidence in achieving average annual sales growth[†] of at least 10% over the next five years, while growing profits[‡] at least as quickly

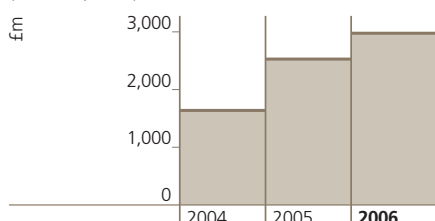
We outlined plans to deliver £250 million of annualised cost savings by the end of 2007 across our UK businesses, at a one-off cost of £250 million

The integration of RAC was completed on time and we met our 2006 cost saving targets

IFRS profit before tax attributable to shareholders

£2,977m

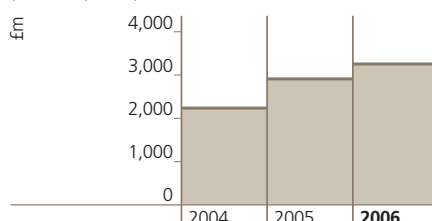
(2005: £2,528m)



EEV operating profit[#]

£3,245m

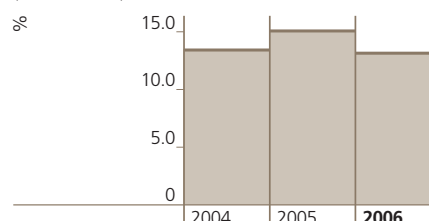
(2005: £2,904m)



Return on equity shareholders' funds[#]

13.1%

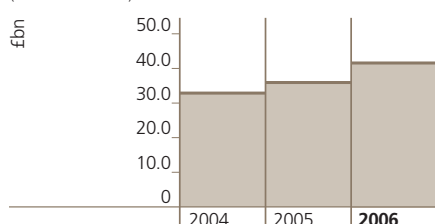
(2005: 15.0%)



Worldwide sales[~]

£41.5bn

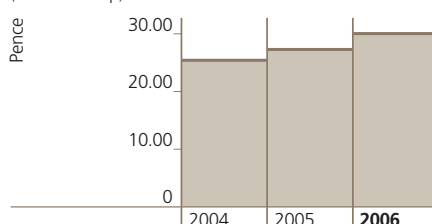
(2005: £35.9bn)



Full year dividend

30.00p

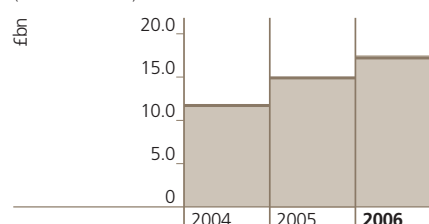
(2005: 27.27p)



Equity shareholders' funds[≈]

£17.5bn

(2005: £14.9bn)



[†] Our growth ambition is an annual average growth after minority interests and before acquisitions, from 2006 to 2010 inclusive, and assuming no major changes in economic conditions.

[‡] New business contribution after required capital, tax and minority interest.

[#] From continuing operations, including long-term savings result on a European Embedded Value (EEV) basis before adjusting items.

[~] Return based on opening equity shareholders' funds on an EEV basis.

[~] From continuing operations, including share of associates' premiums.

[≈] On an EEV basis.



Getting help when
you need it

Chairman's statement

Dear Shareholder,

As I come to the end of my first year as chairman of Aviva, I am delighted to be able to report on a thriving business. We have made progress towards our stated aim of providing prosperity and peace of mind for our customers. Our record financial results are proof that we are in the right markets, at the right time, and are providing the products and services that our customers want.

During the year, we completed the purchase of AmerUs in the US, giving us greater access to the world's largest savings and capital market. Our challenge is now to integrate and grow this business quickly and to demonstrate the value that we believe it brings to our Group. We also completed major new bancassurance partnerships in Ireland (with Allied Irish Banks) and in India (with Centurion Bank of Punjab). Already, we are seeing strong performances from both partnerships. In March, we approached the board of Prudential plc with a proposal to merge our respective companies on an agreed basis. The proposal set out the significant commercial benefits and value-creation potential of the merger. The board of Prudential plc declined to enter into discussions with us and the proposal was consequently withdrawn.

External view

Across the world, the need for individuals to provide adequately for their retirement is being recognised as an increasingly important issue. The situation is particularly severe in Western countries where an ageing population is placing a greater strain on national purses and we are shortly to see the retirement of the "baby boomer" generation. Additionally, people in rapidly developing countries such as China and India are starting to pick up the savings habit. These conditions present a sizeable opportunity for us, and we are fully committed to working with customers, governments, the insurance industry and regulatory bodies to provide innovative and practical solutions.

Richard Harvey

In January 2007, Richard Harvey announced his intention to retire as our group chief executive and to move on to other charitable and business challenges. Richard is a class act by anyone's standards. He has led the Group through numerous challenges and merger activity with professionalism, skill, and foresight. He has made a lasting impression on Aviva and on the wider international insurance industry. I wish him an enjoyable and relaxing break when he leaves us in July, and great success with whatever he chooses to do next. Furthermore, I am delighted that Andrew Moss, our group finance director has agreed to succeed Richard. Andrew has an extensive knowledge of the insurance industry and a strong track record in international financial services. I am looking forward to working with him as he leads Aviva through its next phase of growth.

Legal reforms

I have recently been involved with the development of the Companies Act 2006 and its progress through Parliament in the UK. The Bill is one of the largest ever to be passed and is a significant step towards a far-reaching reform of UK company law. It clarifies the requirements being placed on public companies and pushes them to consider further their internal governance and their social and economic impacts. I strongly support the reforms and am certain that Aviva is in excellent shape to handle the upcoming changes.

Dividend

I am pleased to announce that our recommended final ordinary dividend is 19.18 pence per share, bringing the total dividend for the year to 30.00 pence, an increase of 10% against last year (2005: 27.27 pence). This increase reflects our intention to increase the dividend on a basis judged prudent, while retaining capital to support future business growth, using dividend cover on an IFRS operating earnings after tax basis in the 1.5 to 2.0 times range as a guide.

Board developments

During 2006, we held the first meetings of the newly formed risk and regulatory committee and corporate social responsibility committee. The board remains committed to maintaining the highest levels of governance and compliance particularly in light of the increasing demands in this area. We are also keenly aware of the need to develop our business to be sustainable and responsive to the needs of customers, staff and the wider community. Both committees will provide clear leadership and give the board oversight of the work we are

doing in these areas. In September, we met in India, and combined the meeting with visits to some of our key sites there and in Sri Lanka. It is important that, as a board, we speak directly to people in our business, and see first-hand the exciting developments that are going on. This particular visit gave us a valuable insight into one of the fastest-growing insurance markets in the world, and the excellent work being performed by our people.

Employees

I would like to thank our employees for their hard work and commitment in helping to deliver an excellent set of results. This admirable performance comes against the backdrop of the reduction in the number of UK staff we announced as part of our cost-efficiency programme. During 2006, we made progress in aligning the remuneration of our senior management with the needs of employees and customers. For the first time this year, an element of senior management pay and bonuses will be dependent on employee engagement and customer satisfaction measures, helping to acknowledge that the longer term performance of Aviva depends on motivated staff and satisfied customers.

It was very pleasing to see that Aviva has been recognised as one of the top 50 best places for women to work in the UK, according to *The Times*. Particularly satisfying for me was that we were the only company to be named in each of the assessed categories, emphasising our progressive approach.

Recognition


We have earned awards in a large number of our businesses across Europe, Asia and North America. The recognition has come in areas such as product innovation, sustainability, fund performance, diversity, customer satisfaction, media campaigns and many more. The sheer breadth of this recognition demonstrates to me that across the group we are performing to a high level and pushing ourselves to be the best.

Outlook

We are in a great position and our businesses around the world are performing strongly. We have a diverse geographic spread and multiple product types and distribution channels in our core markets. This balance, particularly the split between long-term savings and general insurance, is a significant advantage as it allows us to be flexible and to fund organic growth internally. When allied to the external market environment and the increasing need for higher retirement savings, it is clear that we have a significant opportunity ahead of us.

2006 has been a year of considerable progress and I fully expect these positive trends to continue through 2007.

Lord Sharman of Redlynch OBE
Chairman




Left to right:

Andrew Moss
Group finance director

Richard Harvey
Group chief executive

Lord Sharman of Redlynch OBE
Chairman

Group chief executive's statement

Dear Shareholder,

It has been a good year for Aviva. During 2006 we produced our best ever set of financial results and we ended the year in a strong position to continue our good progress. This success was achieved while completing the integration of RAC in the UK and the purchase of AmerUs in the US.

AmerUs represents a significant move for us, creating a dynamic and thriving business with greater access to the largest savings market in the world. I'm delighted to welcome Tom Godlasky and his team to Aviva. Our priority is to integrate AmerUs quickly with our existing US business, achieving our projected cost savings and enhancing the profile of Aviva in the US.

Exceptional growth in the UK

In the UK, we have generated exceptional growth in our long-term savings business. Total sales increased by 31% to over £13 billion, helped by strong pension sales resulting from changes brought about by pension simplification following "A-Day" in April. We have increased our share of a market that is itself growing very strongly.

In October, we communicated our plans for the UK long-term business to analysts and investors. Our focus is on developing the business to exploit new market opportunities, continuing to improve service, rationalising our cost base, simplifying our legacy systems and managing the retention of existing customers. We also announced annual cost savings across both the long-term savings and general insurance businesses of £250 million by 2008, at a cost of £250 million. These cost savings will mean a reduction of 4,000 in our UK headcount, although we will seek to minimise the number of compulsory redundancies through natural staff turnover and voluntary measures.

Our UK general insurance and health businesses produced a strong result, proving again that we are able to produce sustainable returns from this business. During the year, we completed the integration of RAC and the disposal of its non-core subsidiaries.

Continued international expansion

Our international businesses continue to grow and develop. To recognise the increasingly diverse and complex nature of these businesses, I asked Tidjane Thiam to take responsibility for continental Europe. This allowed Philip Scott to focus on our rapidly developing businesses across North America and the Asia-Pacific region during 2006.

Our confidence in our international businesses was highlighted by our announcement that we expect to achieve double-digit sales growth* over the next five years, while growing new business contribution at least as quickly.

During 2006, we saw strong sales from our new bancassurance partnership with Allied Irish Banks in Ireland and continuing rapid expansion in Asia. This growth demonstrates our commitment to the continued development of our distribution capacity and our ability to deliver results from new opportunities.

Forward thinking

We continue to make progress as a "forward thinking" company. It is vital that we don't see this as simply a slogan, it has to be fundamental to the way we operate. It means positioning ourselves for tomorrow's opportunities, anticipating our customer's aspirations and finding ways that lead to exceptional performance and customer service from our people.

"Forward thinking" also means helping our customers to think about and plan for their future.

Two developments that take us a step further down that road are websites devoted to financial planning. We created and are supporting a website called www.six-steps.org, which focuses on retirement planning. In the UK, Norwich Union has launched a "make sense of it" website to help people understand investments and to highlight the benefits of taking professional advice.

If we are to achieve our growth plans, it is important for us to have a strong brand to support us. We've made great progress in building the Aviva brand this year. The "Forward thinking" campaign has been hugely successful in raising our brand profile with our target audience this year and we will continue to invest in it over the next three years.

Financial results

Our pre-tax operating profit** of £3,245 million (2005: £2,904 million) reflects continued strong operational performances from our portfolio of businesses and the success of our proven strategy. Our return on equity shareholders' funds was 13.1% (2005: 15.0%). On an IFRS basis, the group operating profit before tax was £3,110 million (2005: £2,128 million). The group delivered an overall profit before tax attributable to shareholders of £2,977 million (2005: £2,528 million).

Retirement

In January, I announced my intention to retire in July this year. I'm proud to have had the opportunity to help create a leading company in the global insurance industry. With almost ten years as group chief executive under my belt, there are other dimensions to my life and other things that I want to achieve in both international charity work and the business world. Now is the right time for me to set out on those adventures while I have the energy and desire to make a difference. I wish Andrew Moss and Philip Scott every success as they step into their new roles of group chief executive and group finance director, respectively.

Our people

In September, we conducted our second global employee survey, and our first to cover all business units in the group. The results of the survey are helping us to identify the differing needs of employees around the world, share examples of good practice and provide a fulfilling and supportive work environment.

We are a diverse organisation, something that I see as an important strength. Diversity not only benefits individuals, it enriches our pool of talent, offers new ways of thinking and improves our understanding of customers.

Outlook

We are continually working to get the right balance between risk, return and growth, and I think that this set of results shows that we are making excellent progress. Managing risk against return is integral to everything that we do and will remain a consistent theme in 2007. We continue to benefit from our diverse geography, distribution and product range and we actively use this balanced portfolio approach to manage away a significant proportion of risk.

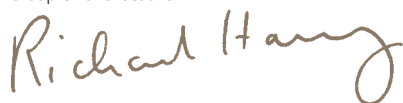
In the stable and mature markets of the UK and continental Europe, I believe that access to distribution will be our key driver of growth. We will seek to expand our bancassurance channel and significantly enhance our direct capability. We see the capital generated by our general insurance and health businesses and our superior understanding of customer needs as key differentiators.

The rapidly developing markets in the Asia-Pacific region represent a substantial longer term area of growth for us. We will be looking to accelerate our growth in India and China, while continuing to explore the potential of other markets. Across the region, we will be working to expand distribution through bancassurance, independent financial advisers and the direct sales force.

In North America, the AmerUs acquisition provides us with a scalable platform for growth in what is the largest single market in the world. Our focus is on successfully integrating AmerUs and achieving our projected costs savings.

I believe that we are in the right markets, at the right time. We have produced an excellent set of results for 2006 and have put ourselves in a strong position to build on these results in 2007.

Richard Harvey
Group chief executive



* Growth ambitions are annual averages after minority interests, before acquisitions, and assuming no major changes in economic conditions.

** On an EEV basis.