

## 1 – Basis of preparation – modified statutory solvency basis

(a) The results for the six months to 30 June 2004 have been prepared on the basis of the accounting policies set out in Aviva plc's 2003 Annual Report and Accounts. The results for the six months to 30 June 2004 and 2003 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 2003 have been taken from the Group's 2003 Annual Report and Accounts. The auditors have reported on the 2003 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 2003 Annual Report and Accounts have been filed with the Registrar of Companies.

(b) The contribution from the Group's share of the alliance with 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 21.

(c) In November 2000, the Accounting Standards Board issued Financial Reporting Standard 17 (FRS17) "Retirement Benefits", the accounting provisions, which are not required to be adopted by the Group until 2005. FRS17 requires certain transitional disclosures to be made in the statutory accounts. The Group has continued to account for pension costs in accordance with SSAP24.

### (d) Changes in accounting policy

#### (i) Additional value of internally-generated in-force business

In November 2003, the Association of British Insurers revised its Statement of Recommended Practice on accounting for insurance business (ABI SORP). One of the amendments is that insurance companies are no longer allowed to recognise the internally-generated additional value of in-force business (AVIF) on their balance sheets, either as an asset or as part of shareholders' funds.

The effect of implementing this change are that shareholders' funds at 30 June 2004 have been reduced by £4,677 million (30 June 2003: reduced by £3,942 million; 31 December 2003: reduced by £4,611 million) and minority interests have been reduced by £174 million (30 June 2003: reduced by £101 million; 31 December 2003: reduced by £133 million).

#### (ii) Presentation changes

In December 2003, the Urgent Issues Task Force issued UITF Abstract 38 which requires shares held in employee share trusts to be deducted from capital in arriving at shareholders' funds rather than being held as assets.

The effects of implementing this change on shareholders' funds at 30 June 2004 is nil (30 June 2003: reduced by £1 million; 31 December 2003: reduced by £1 million).

## 2 – Exchange rates

The euro rates employed in this announcement are an average rate of €1 = £0.68 (six months to 30 June 2003: €1 = £0.68; full year 2003: €1 = £0.69) and a closing rate of €1 = £0.67 (30 June 2003: €1 = £0.70; 31 December 2003: €1 = £0.70).

## 3 – Exceptional costs for termination of operations

In February 2004, the Group announced the closure of its UK national broker subsidiary, Hill House Hammond (HHH) by the end of 2004 together with the sale of its commercial business. The associated pre-tax costs of the closure of HHH are £50 million and these exceptional costs relate to the redundancy costs and closure provisions. The Group expects to complete the branch closures by the end of September 2004.

During 2003, the Group incurred costs on the closure of its general insurance operations in Belgium. These exceptional costs relate to termination activities, including redundancy costs and closure provision.

## 4 – Disposals

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

	6 months 2004 £m	6 months 2003 £m	Full year 2003 £m
<b>Other small operations</b>	<b>6</b>	<b>(7)</b>	<b>(6)</b>
	<b>6</b>	<b>(7)</b>	<b>(6)</b>

No disposal of subsidiary undertakings was sufficiently material to warrant separate disclosure.

In June 2004, our French operations, Aviva France, sold its 31.4% holding in Société Foncière Lyonnaise (SFL) a French listed property company for €427 million (£285 million) and recorded a gain of £27 million. These shares were owned by both our French life and non-life operations. In accordance with local French provisions, the gain on sale in the life company of £22 million has been transferred to a statutory provision forming part of the fund for future appropriations and will be attributed to policyholders and shareholders as bonuses are declared to policyholders within the next eight years.

# Notes to the accounts

## continued

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

	New single premiums		New regular premiums		Premium income (after reinsurance) and investment sales		
	6 months	6 months	6 months	6 months	6 months	6 months	Full year
	2004	2003	2004	2003	2004	2003	2003
	£m	£m	£m	£m	£m	£m	£m
<b>Life and pensions sales</b>							
<b>United Kingdom – group*</b>	<b>2,668</b>	2,618	<b>265</b>	251	<b>4,030</b>	4,828	8,688
– associates	<b>73</b>	82	<b>8</b>	10	<b>125</b>	141	254
	<b>2,741</b>	2,700	<b>273</b>	261	<b>4,155</b>	4,969	8,942
<b>Europe (excluding UK)</b>							
France	<b>1,183</b>	966	<b>27</b>	23	<b>1,345</b>	1,141	2,300
Ireland	<b>85</b>	86	<b>35</b>	30	<b>219</b>	217	442
Italy	<b>694</b>	804	<b>20</b>	37	<b>794</b>	913	1,662
Netherlands (including Belgium and Luxembourg)	<b>542</b>	431	<b>65</b>	59	<b>1,123</b>	970	1,722
Poland – Life	<b>20</b>	10	<b>7</b>	8	<b>126</b>	132	263
– Pensions	<b>13</b>	4	<b>8</b>	11	<b>217</b>	212	440
Spain	<b>875</b>	778	<b>42</b>	61	<b>965</b>	834	1,641
Other	<b>167</b>	100	<b>41</b>	34	<b>316</b>	258	616
<b>International</b>	<b>225</b>	476	<b>51</b>	52	<b>357</b>	602	1,007
<b>Total life and pension sales (including share of associates)</b>	<b>6,545</b>	6,355	<b>569</b>	576	<b>9,617</b>	10,248	19,035
<b>Investment sales</b>							
United Kingdom	<b>437</b>	313	<b>14</b>	6	<b>451</b>	319	680
Netherlands	<b>120</b>	115	–	–	<b>120</b>	115	204
Poland	<b>48</b>	30	<b>1</b>	1	<b>49</b>	31	110
Other Europe	<b>91</b>	21	–	–	<b>91</b>	21	49
International	<b>64</b>	34	–	–	<b>64</b>	34	98
<b>Total investment sales</b>	<b>760</b>	513	<b>15</b>	7	<b>775</b>	520	1,141
<b>Total long-term savings (including share of associates)</b>	<b>7,305</b>	6,868	<b>584</b>	583	<b>10,392</b>	10,768	20,176

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.

\* Included within the prior year premium income (after reinsurance) and investment sales are transfers of institutional business into Morley Pooled Pensions (six months to 30 June 2003: £1,247 million; full year 2003: £1,247 million) which, since they are institutional in nature, are excluded from new business sales.

### 6 – Geographical analysis of modified statutory life operating profit

	6 months	6 months	Full year
	2004	2003	2003
	£m	£m	£m
<b>United Kingdom</b>			
With-profit	<b>54</b>	64	145
Non-profit	<b>235</b>	229	449
<b>Europe (excluding UK)</b>			
France	<b>84</b>	80	179
Ireland	<b>12</b>	18	41
Italy	<b>19</b>	14	30
Netherlands (including Belgium and Luxembourg)	<b>54</b>	29	107
Poland	<b>38</b>	41	103
Spain	<b>28</b>	24	50
Other	<b>3</b>	(7)	(4)
<b>International</b>	<b>21</b>	23	38
<b>Total modified statutory life operating profit</b>	<b>548</b>	515	1,138

**7 – Geographical analysis of health premiums after reinsurance and operating result****(a) Premiums after reinsurance:**

	6 months 2004 £m	6 months 2003 £m	Full year 2003 £m
United Kingdom	<b>145</b>	136	270
France	<b>78</b>	71	134
Netherlands	<b>459</b>	439	662
	<b>682</b>	646	1,066

**(b) Operating result:**

	Operating profit			Underwriting result		
	6 months 2004 £m	6 months 2003 £m	Full year 2003 £m	6 months 2004 £m	6 months 2003 £m	Full year 2003 £m
United Kingdom	<b>3</b>	4	13	<b>1</b>	2	9
France	<b>2</b>	3	9	<b>(3)</b>	(2)	(2)
Netherlands	<b>28</b>	20	39	<b>4</b>	(9)	(20)
	<b>33</b>	27	61	<b>2</b>	(9)	(13)

**8 – Geographical analysis of general insurance premiums after reinsurance and operating result****(a) General insurance premiums after reinsurance:**

	6 months 2004 £m	6 months 2003 £m	Full year 2003 £m
<b>United Kingdom</b>	<b>2,674</b>	2,496	5,135
<b>Europe (excluding UK)</b>			
France	<b>304</b>	305	515
Ireland	<b>292</b>	319	611
Netherlands	<b>341</b>	295	563
Other	<b>124</b>	116	226
<b>International</b>			
Canada	<b>601</b>	565	1,208
Other	<b>118</b>	182	266
	<b>4,454</b>	4,278	8,524

**(b) Operating result:**

	Operating profit*			Underwriting result*		
	6 months 2004 £m	6 months 2003 £m	Full year 2003 £m	6 months 2004 £m	6 months 2003 £m	Full year 2003 £m
<b>United Kingdom</b>	<b>408</b>	313	676	<b>67</b>	10	50
<b>Europe (excluding UK)</b>						
France	<b>13</b>	15	35	<b>(6)</b>	(7)	(9)
Ireland	<b>68</b>	43	91	<b>36</b>	14	26
Netherlands	<b>23</b>	12	35	<b>(1)</b>	(3)	(5)
Other	<b>18</b>	16	32	<b>(2)</b>	(4)	(6)
<b>International</b>						
Canada	<b>59</b>	(33)	12	<b>4</b>	(85)	(98)
Other	<b>24</b>	21	30	<b>7</b>	4	(12)
	<b>613</b>	387	911	<b>105</b>	(71)	(54)

\* The general insurance operating profit and underwriting result are stated before the change in the equalisation provision of £11 million (six months to 30 June 2003: £28 million; full year to 31 December 2003: £49 million) and the Financial Services Compensation Scheme levy of £25 million (six months to 30 June 2003: nil; full year to 31 December 2003: nil).

## Notes to the accounts

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#### 9 – Corporate costs

	6 months 2004 £m	6 months 2003 £m	Full year 2003 £m
Global finance transformation programme	(45)	(12)	(60)
Central costs and sharesave schemes	(49)	(44)	(100)
	<b>(94)</b>	<b>(56)</b>	<b>(160)</b>

#### 10 – Tax

The tax charge in the profit and loss account comprises:

##### (a) Tax on profit on ordinary activities:

	6 months 2004 £m	6 months 2003 £m	Full year 2003 £m
<b>Current tax</b>			
UK corporation tax – current year	22	1	(55)
– prior year	(11)	(9)	17
Overseas tax – current year	(44)	(18)	(1)
– prior year	2	3	3
Tax attributable to balance on technical account	(160)	(147)	(315)
	<b>(191)</b>	<b>(170)</b>	<b>(351)</b>

##### Deferred tax

Origination and reversal of timing differences	47	(6)	(19)
Changes in tax rates or law	(6)	–	(11)
(Decrease)/increase in discount	(1)	(6)	14
Prior year adjustments	–	(29)	–
	<b>40</b>	<b>(41)</b>	<b>(16)</b>

##### Total tax charged in the profit and loss account

**(151)**      **(211)**      **(367)**

##### (b) Tax charge analysed between:

	6 months 2004 £m	6 months 2003 £m	Full year 2003 £m
Tax charge on operating profit before tax, amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items	(255)	(194)	(403)
Tax credit/(charge) on (loss)/profit on other ordinary activities	104	(17)	36
	<b>(151)</b>	<b>(211)</b>	<b>(367)</b>

##### (c) Factors affecting current tax charge for the year:

	6 months 2004 £m	6 months 2003 £m	Full year 2003 £m
<b>Profit on ordinary activities before tax</b>	<b>414</b>	742	1,390
Current tax charge at standard UK corporation tax rate of 30% (2003: 30%)	(124)	(223)	(417)
Adjustment to tax charge in respect of prior years	(8)	(6)	20
Non-assessable dividends	23	6	5
Non-taxable profit/(loss) on the sale of investments	8	(1)	(10)
Non-taxable amortisation of goodwill	(9)	(7)	(5)
Other disallowable expenses	(35)	(16)	(33)
Utilisation/non-utilisation of tax losses	30	–	(10)
Different local basis of tax on overseas profits	(29)	48	53
Deferred tax charge arising from movement in unrealised gains and losses	–	4	20
Other deferred tax movements	(41)	2	10
Deferred tax assets not recognised	–	9	38
Other items	(6)	14	(22)
<b>Current tax charge for the year</b>	<b>(191)</b>	<b>(170)</b>	<b>(351)</b>

## 11 – Dividends

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

	6 months 2004 £m	6 months 2003 £m	Full year 2003 £m
<b>Preference dividends</b>	<b>9</b>	<b>9</b>	<b>17</b>

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

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

	6 months 2004 £m	6 months 2003 £m	Full year 2003 £m
Ordinary dividends			
Interim 9.36 pence (2003: 9.0 pence)	<b>211</b>	203	203
Final (2003: 15.15 pence)	–	–	342
<b>Total ordinary dividends</b>	<b>211</b>	<b>203</b>	<b>545</b>

Irish shareholders who are due to be paid a dividend denominated in euros will receive a payment at the exchange rate prevailing on 3 August 2004.

## 12 – Earnings per share

(a) Basic earnings per share:

	6 months 2004			6 months 2003			Full year 2003	
	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*	<b>878</b>	<b>571</b>	<b>25.4</b>	404	17.9	991	44.0	
Adjusted for the following items:								
– Amortisation of goodwill	<b>(49)</b>	<b>(49)</b>	<b>(2.2)</b>	(52)	(2.3)	(103)	(4.6)	
– Amortisation of acquired additional value of in-force long-term business	<b>(49)</b>	<b>(36)</b>	<b>(1.6)</b>	(30)	(1.3)	(98)	(4.4)	
– Financial Services Compensation Scheme levy	<b>(25)</b>	<b>(18)</b>	<b>(0.8)</b>	–	–	–	–	
– Exceptional costs for termination of operations	<b>(50)</b>	<b>(42)</b>	<b>(1.9)</b>	(16)	(0.7)	(16)	(0.7)	
– Short-term fluctuation in investment return	<b>(286)</b>	<b>(209)</b>	<b>(9.3)</b>	207	9.1	198	8.9	
– Change in the equalisation provision	<b>(11)</b>	<b>(8)</b>	<b>(0.4)</b>	(20)	(0.9)	(34)	(1.5)	
– Net profit/(loss) on disposal of subsidiary undertakings	<b>6</b>	<b>6</b>	<b>0.3</b>	(1)	–	(6)	(0.3)	
<b>Profit attributable to equity shareholders</b>	<b>414</b>	<b>215</b>	<b>9.5</b>	492	21.8	932	41.4	

\* All operating profit is from continuing operations.

Earnings per share has been calculated based on the 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, as well as on the profit attributable to equity shareholders. 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 2,252 million (six months to 30 June 2003: 2,252 million; full year 2003: 2,251 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 2004 was 2,262 million (30 June 2003: 2,257 million; 31 December 2003: 2,257 million).

(b) Diluted earnings per share:

	6 months 2004			6 months 2003			Full year 2003		
	Total £m	Weighted average number of shares m	Per share p	Total £m	Weighted average number of shares m	Per share p	Total £m	Weighted average number of shares m	Per share p
Profit attributable to equity shareholders	<b>215</b>	<b>2,252</b>	<b>9.5</b>	492	2,252	21.8	932	2,251	41.4
Dilutive effect of share awards and options	–	<b>18</b>	–	–	8	–	–	8	(0.1)
<b>Diluted earnings per share</b>	<b>215</b>	<b>2,270</b>	<b>9.5</b>	492	2,260	21.8	932	2,259	41.3

## 13 – 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 year, 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 year.

## Notes to the accounts continued

### 13 – Longer-term investment return continued

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

	Longer-term rates of return			
	Equities		Properties	
	2004 %	2003 %	2004 %	2003 %
United Kingdom	<b>8.1</b>	8.1	<b>6.6</b>	6.6
France	<b>7.5</b>	7.5	<b>6.5</b>	6.5
Ireland	<b>8.7</b>	8.7	<b>6.7</b>	6.7
Netherlands	<b>8.4</b>	8.4	<b>6.5</b>	6.5
Canada	<b>9.3</b>	9.3	<b>7.3</b>	7.3

The table below shows the sensitivity in the changes in the longer-term rates of return on the annual operating profit:

Movement in investment return	By	Change in	By
Equities	1% higher/lower	Group operating profit before tax	<b>£31m</b>
Properties	1% higher/lower	Group operating profit before tax	<b>£8m</b>

### 14 – Group capital structure

The Group maintains an efficient structure from a combination of equity shareholders' funds, preference capital, subordinated debt and borrowings, consistent with the Group's risk profile and the regulatory and market requirements of its business. 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. Accordingly, the Group's capital structure is analysed on an embedded value basis.

The Group's capital, from all funding sources, has been allocated such that the capital employed by trading operations is greater than the capital provided by its shareholders and its subordinated debt holders. As a result, the Group is able to enhance the returns earned on its equity capital.

#### Capital employed by segment

	30 June 2004 £m	31 December 2003 £m
Long-term savings	<b>12,152</b>	12,373
General insurance and health	<b>4,505</b>	4,481
Other business	<b>581</b>	725
Corporate	<b>3,176</b>	2,934
<b>Total capital employed</b>	<b>20,414</b>	20,513

#### Financed by

Internal debt	<b>3,902</b>	3,841
External debt	<b>1,758</b>	1,749
Subordinated debt	<b>2,751</b>	2,814
Shareholders' funds and minority interests	<b>12,003</b>	12,109
	<b>20,414</b>	20,513

#### Deployment of equity shareholders' funds

	30 June 2004				31 December 2003	
	Equities £m	Fixed income securities £m	Other investments £m	Other net assets £m	Total £m	Total £m
<b>Assets</b>						
Long-term savings	<b>586</b>	<b>3,813</b>	<b>799</b>	<b>1,434</b>	<b>6,632</b>	6,923
General insurance, health, corporate and other business	<b>2,799</b>	<b>3,281</b>	<b>1,130</b>	–	<b>7,210</b>	7,035
	<b>3,385</b>	<b>7,094</b>	<b>1,929</b>	<b>1,434</b>	<b>13,842</b>	13,958
Goodwill					<b>1,263</b>	1,323
Additional value of in-force long-term business					<b>5,309</b>	5,232
<b>Assets backing total capital employed in continuing operations</b>					<b>20,414</b>	20,513
External debt					<b>(1,758)</b>	(1,749)
Internal debt					<b>(3,902)</b>	(3,841)
Subordinated debt					<b>(2,751)</b>	(2,814)
					<b>12,003</b>	12,109
Minority interests					<b>(949)</b>	(944)
Preference capital					<b>(200)</b>	(200)
<b>Equity shareholders' funds</b>					<b>10,854</b>	10,965