13 January 2005

AVIVA ANNOUNCES RESTATEMENT OF FINANCIAL INFORMATION UNDER THE EUROPEAN EMBEDDED VALUE (EEV) PRINCIPLES

- Aviva is the first European life insurer to fully implement the EEV principles, and will use this basis for reporting its 2004 preliminary results on 9 March 2005, in place of the previous Achieved Profits basis.
- In adopting the EEV principles there has been no material change to the Group operating profit for the periods to 30 June 2004 and 31 December 2003.
- The adoption of the EEV principles provides enhanced disclosures on life business capital requirements, the cost of options and guarantees and key economic and operating assumption sensitivities.
- The restated embedded value (EV) includes a deduction of £132 million at 30 June 2004 for the cost of funding the life element of pension fund deficit.
- The overall impact on the embedded value is a reduction of less than 5% at each reporting date of 30 June 2004, 31 December 2003 and 31 December 2002.
- Analyst meeting and teleconference at 9:30am (GMT) today. Details in notes to editors.

Andrew Moss, Aviva's group finance director, said:

"We believe embedded value methodology remains the best way to value life businesses and the early adoption of the European Embedded Value principles aligns our reported results to the sophisticated techniques and management practices employed to run our life business. Investment markets already include allowances for many of the factors taken into account in these EEV numbers.

"There is no change to the reporting basis for our statutory results, the regulatory capital position or our dividend paying capacity."

"As the EEV principles are adopted across the European insurance sector there will be greater transparency and comparability for investors, which we welcome."

Restatement of key performance indicators	**30 June 2004**		**31 December 2003**	
	Restated Embedded Value	**Achieved Profits Basis**	**Restated Embedded Value**	**Achieved Profits Basis**
New business contribution* - before the effect of required capital	£338m	£324m	£646m	£621m
New business contribution* - after the effect of required capital	£251m	£246m	£474m	£472m
Operating profit**	£1,145m	£1,130m	£1,906m	£1,907m
Total shareholders' funds	£10,544m	£11,054m	£10,752m	£11,165m
Net asset value per share***	474p	496p	484p	502p

All operating profit is from continuing operations.
* Before tax and minorities.
** Including life EEV operating return, before amortisation of goodwill and exceptional items.
*** Measured on an embedded value basis.

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Notes to editors

- ANALYSTS: A presentation to investors and analysts will take place at 9:30am (GMT) at the London Underwriting Centre, 3 Minster Court, Mincing Lane, London, EC3R 7DD. There will also be a live teleconference link to the meeting on +44 (0)20 7019 9509. A replay facility will be available for two weeks on +44 (0)20 7984 7578 and enter passcode 922702# for the entire presentation including Q&A's or passcode 311192# to listen to the Q&A's only.

  The presentation slides will be available on the Group's website, www.aviva.com/investors/presentations.cfm from 9:00am (GMT).

  Photographs are available from the Aviva media centre or by clicking www.aviva.com/media

- Embedded Value is a method of reporting the economic value of life insurance business. This information helps investors to value life insurance companies. Until now, the basis for preparation for this supplementary information has varied by country and in some cases by company within a country. This has made it difficult for investors and analysts to compare relative performance.

- The CFO Forum www.cfoforum.nl is a high-level group formed by the Chief Financial Officers of 19 major European listed and non-listed insurance companies. Its aim is to discuss issues relating to proposed new accounting regulations for their businesses and how they can create greater transparency for investors. The Forum was created in 2002 and launched a set of embedded value principles in May 2004 ("European Embedded Value") that its members across Europe have agreed to adopt for their 2005 published accounts, with early adoption encouraged.

- Aviva is one of the leading providers of life and pensions to Europe with substantial positions in other markets around the world, making it the world's fifth-largest insurance group, based on reported worldwide gross written premiums, at 31 December 2003.

- Aviva's principal business activities are long-term savings, fund management and general insurance, with worldwide premium income and retail investment sales from continuing operations of £30 billion and assets under management of around £240 billion.

- Overseas currency results are translated at average exchange rates.

- All growth rates are quoted in local currency.

- This announcement may contain "forward looking statements" with respect to certain of Aviva's plans and its current goals and expectations relating to its future financial condition, performance and results. By their nature, all forward looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond Aviva's control, including amongst other things, UK domestic and global economic business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities, the impact of competition, inflation, deflation, the timing impact and other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation and other regulations in the jurisdictions in which Aviva and its affiliates operate. As a result, Aviva's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in Aviva's forward-looking statements.

  Aviva undertakes no obligation to update the forward-looking statements contained in this presentation or any other forward-looking statements we may make.

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Adoption of European embedded value (EEV) principles and impact on results

1. Background

In May 2004 the CFO Forum, a group representing the Chief Financial Officers of major European insurers, launched the European Embedded Value (EEV) principles, with the intention of improving comparability and transparency in embedded value reporting across Europe. The CFO Forum members agreed that all participants will implement the principles in the form of supplementary reporting from the 2005 year end, with optional early implementation. The Aviva plc Board has decided to adopt these principles in respect of the financial year ended 31 December 2004 and to re-state comparative financial information for the full year 2003 and the six months to 30 June 2004. The EEV principles will therefore replace the Achieved Profits basis of reporting adopted by Aviva with effect from the 2004 preliminary results announcement.

The Achieved Profits basis of reporting previously adopted by Aviva, already complied with the majority of the EEV principles. Accordingly the move from the Achieved Profits basis to EEV represents an evolution of the previously adopted approach and is not a wholesale change to Aviva's value reporting basis.

The Directors continue to believe that embedded value remains the best measure of value for our long-term insurance business. By adopting these principles early the Directors are seeking to achieve, through supplementary reporting, consistency and continuity of performance reporting at a time of significant and ongoing change to primary reporting arising from the two-phase approach to accounting for insurance business under International Financial Reporting Standards.

The results for 2003 have been audited by the auditors, Ernst & Young LLP. The results for the six month period to 30 June 2004 are unaudited but have been reviewed by Ernst & Young LLP. Their reports in respect of the six month period to 30 June 2004 and the year to 31 December 2003 are shown on pages 49 and 50.

2. Operating results

The adoption of the EEV principles has not resulted in a significant change to the group operating profit, although classifications between lines have been revised.

Analysis of operating profit

The group's operating profit under the EEV basis can be analysed as follows:

	Restated 6 months 2004 £m	Originally reported 6 months 2004 £m	Restated Full year 2003 £m	Originally reported Full year 2003 £m
Life EEV operating return				
– Life businesses	792	800	1,522	1,555
– Equity release	21	-	31	-
– Non-insurance service and holding companies	(26)	-	(75)	-
– Fund management service companies	12	-	18	-
Total life EEV operating return	799	800	1,496	1,555
Fund management	10	17	(4)	10
Health	33	33	61	61
General insurance	613	613	911	911
Non-insurance	8	(15)	8	(64)
Corporate costs	(94)	(94)	(160)	(160)
Unallocated interest charges	(224)	(224)	(406)	(406)
Operating profit before tax	**1,145**	**1,130**	**1,906**	**1,907**
Return on capital employed	**14.1%**	**13.4%**	**13.1%**	**12.7%**

Profits and losses from the group's fund management and other service company operations arising on trading with the group's life companies were previously reported on a statutory basis and included within the fund management and non-insurance classifications. Under the EEV basis, such operating profits and losses are incorporated in the calculation of the embedded value and their EEV basis profits and losses are included within the total life EEV operating return. As a result, the fund management segment now only includes the results from the external funds under management and the results for managing the internal funds for our general insurance operations in the UK and France. Furthermore, the non-insurance segment excludes the results of Norwich Union Equity Release (NUER), and the proportion of the results of our UK Life service company and service and holding companies in France that relate to covered business.

Group profit on ordinary activities

The table below sets out the group operating profit before tax on an EEV basis and as previously reported under the Achieved Profits basis:

	Restated 6 months 2004 £m	Originally reported 6 months 2004 £m	Restated Full year 2003 £m	Originally reported Full year 2003 £m
Operating profit before tax	**1,145**	**1,130**	**1,906**	**1,907**
Amortisation of goodwill	(49)	(49)	(103)	(103)
Financial Services Compensation Scheme levy	(25)	(25)	-	-
Short-term fluctuations in investment return – general insurance and shareholder business	(285)	(285)	83	83
Variation from longer-term investment return – life business	(202)	(214)	696	683
Effect of economic assumption changes	56	205	(55)	11
Change in claims equalisation provision	(11)	(11)	(49)	(49)
Profit/(loss) on disposal of subsidiary and associated undertakings	6	6	(6)	(6)
Exceptional costs for termination of operations	(50)	(50)	(19)	(19)
Profit on ordinary activities before tax	**585**	**707**	**2,453**	**2,507**

The key areas that have changed are the variation from longer-term investment return and the effect of economic assumption changes. The difference in the variation from longer-term investment return is primarily as a result of the inclusion of the time value of options and guarantees, which had a positive effect in the two periods as interest rates rose. The difference in the effect of economic assumption changes arises primarily from the harmonisation of key economic assumptions across the Eurozone under EEV.

3. Shareholders' funds / embedded value

The reported value of shareholders' funds, has reduced under the EEV basis, as a result of changes to the economic basis and due to the fact that explicit allowances are now made for items previously outside the scope of embedded value reporting, such as losses in service companies. Overall the reduction on shareholders' funds is principally attributable to the UK Life businesses. The value of shareholders' funds attributable to non-life businesses are unaffected, other than for the reclassification of NUER.

	Restated 30 June 2004 £m	Originally reported 30 June 2004 £m	Restated 31 December 2003 £m	Originally reported 31 December 2003 £m
Life embedded value				
– United Kingdom	5,036	5,513	5,200	5,673
– Continental Europe	5,899	5,846	6,009	5,894
– International	538	582	542	588
Embedded value	11,473	11,941	11,751	12,155
RBSG goodwill	211	211	218	218
Non-life business net assets [1]	2,574	2,602	2,550	2,550
	14,258	14,754	14,519	14,923
Minority interests	(963)	(949)	(953)	(944)
Subordinated debt	(2,751)	(2,751)	(2,814)	(2,814)
Total shareholders' funds	**10,544**	**11,054**	**10,752**	**11,165**

[1] Non-life business net assets have reduced by £28 million at 30 June 2004 due to the reclassification of NUER net assets from the non-life segment to the life insurance segment (31 December 2003: nil).

4. EEV methodology – principles and guidance

The EEV principles comprise 12 main principles and supporting guidance that set out an improved approach to calculating the valuation of shareholders' interest in a life insurance company.

Under the previous supplementary basis of reporting, the Group was already complying with a number of these principles. Accordingly, the Directors regard the adoption of EEV as a refinement to the Achieved Profits basis of reporting. The underlying business fundamentals are unaffected by this change.

Of the 12 principles, the following affect the restatement of the Group's results:

Revised economic basis:
- Principle 5: Required Capital
- Principle 7: Financial Guarantees and Options
- Principle 10: Economic assumptions

Business included in EEV calculations:
- Principle 2: Covered business
- Principle 9: Assessment of appropriate projection assumptions (service and holding companies)

Calculation of new business contribution and margins:
- Principle 8: New business and renewals

In addition, Principle 12 provides details of further disclosures that must be made. In adopting EEV, Aviva has complied with all the principles and the supporting guidance. The impact on the reported results of implementing the principles set out above is described in more detail in the following sections.

Revised economic basis

We have re-examined the mechanism through which risk is allowed for in the overall embedded value calculation. Under the Achieved Profits basis, allowance for risk was largely captured through the risk discount rate (RDR). Risk has been allowed for within the overall EEV basis in margins in the policy liability calculations, allowance for the cost of holding capital above the regulatory minimum levels and in the explicit assessment of the cost of financial options and guarantees. We have therefore revised our approach, such that the level of risk margin in the EEV basis RDR reflects the residual risk after taking account of the other risk allowances.

Principle 10 – Economic assumptions

As a result of the adoption of the EEV principles, we have reviewed and reassessed all of our economic assumptions. As a consequence, risk free rates, equity and property risk premiums and expense inflation assumptions have been substantially harmonised across the Eurozone.

The revised approach to setting the assumed risk margins is now based on an assessment of the Group's weighted average cost of capital (WACC) using well established capital asset pricing model (CAPM) methodology. The Group WACC has been calculated by reference to the cost of equity and the cost of debt based on the actual relative weighting at the relevant date. In arriving at the cost of equity, we have used an equity risk premium of 3% and a market assessed risk rate (beta) averaged over 2 years. Having established risk margins for the Group, these margins will be regularly reviewed, and amended in the event of a material long term change in the underlying risk margin assessment. The basis adopted produced a group-wide risk discount rate, which is equivalent to a risk margin of 2.7% above the UK pre-tax risk-free rate.

When assessing risk discount rates for individual businesses within the Group, we have taken account of the relative material risks of the business written, but we have ensured that the weighted average of the risk margins adopted across the Group's businesses is consistent with the Group WACC. In practice, we have made allowance for business specific risks in the level of required capital in each territory. Hence we believe that the residual risk does not vary materially over our key UK and Continental European businesses, so a common risk margin has been adopted. Therefore the 2.7% risk margin, derived from the Group WACC methodology outlined above, was added to local risk free rates to produce the respective RDR for each of our UK and European businesses. Higher risk margins have been used to allow for higher political, business and operational risk in some small and developing businesses.

Other economic assumptions used in the EEV calculations have been determined to ensure consistency with the risk discount rate. In particular, the assumption for equity returns uses the same equity risk premium of 3% as that used in assessing the Group WACC.

The Group's revised approach to establishing economic assumptions (specifically investment returns, required capital and discount rates) has been reviewed by Tillinghast, a firm of actuarial consultants, who have confirmed to the Directors that, for the life business in aggregate, the approach is based on the well established capital asset pricing model theory and is in line with the EEV principles and guidance.

Principle 5 – Required capital

Under the EEV principles, the level of required capital is at least the minimum level of solvency capital at which the local supervisor is empowered to take action. For each business we have assessed the required capital as the amount deemed to be locked in to support the business written, based on the higher of current market and regulatory norms. We have also taken into account the Group's pricing bases and internal economic capital targets.

In the UK, we have assessed the required capital for our annuity book at 200% of the EU minimum and the remainder of our non profit portfolio has been set at 100% of the EU minimum. The Directors consider that, in all cases, the level of required capital represents an appropriate level of capital to be carrying for the risks of the Group's current portfolio of business.

The table below summarises the level of required capital across the business units, expressed as a percentage of the EU minimum solvency margin (or equivalent):

	Level of required capital
United Kingdom	
- Annuities	200%
- Unit linked and other non participating business	100%
France	115%
Ireland	150%
Italy	115%
Netherlands	150%
Poland	150%
Spain	
- Aviva Vida y Pensiones	125%
- Bancassurance companies	110%
Other countries	120% - 200%
Weighted average	**135%**

	30 June 2004 £m	**31 December 2003 £m**
Amount of required capital for in-force covered business, net of implicit items	3,980	4,114
Cost of required capital	1,120	1,049

Where implicit items have been allowed by local regulators, these have been deducted from the level of required capital at each balance sheet date in the table above. The cost of required capital is the difference between the required capital and the present value of projected releases of the required capital and investment earnings on assets deemed to back that capital.

Principle 7 – Financial options and guarantees

Under our previous methodology, the Group embedded value included an explicit allowance for the "intrinsic value" of financial options and guarantees, which was calculated by reference to the expected cost of the guarantee under best estimate assumptions of future economic conditions. The "time value" of options and guarantees, which represents the additional cost arising from uncertainty surrounding future economic conditions within the embedded value, was allowed for implicitly within the risk discount rate.

Under the EEV methodology, the Group has explicitly calculated the time value of financial options and guarantees using sophisticated stochastic simulations. This is determined by deducting the average value of shareholder cash flows under a large number of stochastic economic scenarios from the deterministic shareholder value under best estimate assumptions. The impact of the time value of options and guarantees has not changed significantly period on period. The time value of options and guarantees across the businesses is summarised below:

	30 June 2004 £m	**31 December 2003 £m**
United Kingdom	35	36
France	66	71
Ireland	6	6
Italy	11	10
Netherlands	72	76
Poland	4	4
Spain	10	10
Other Europe	10	10
International	8	9
	222	**232**

The time value of options and guarantees is most significant in the United Kingdom, France and the Netherlands. In the United Kingdom, this relates mainly to no-MVA guarantees on unitised with-profit business and guaranteed annuity rates. In France, this relates mainly to guaranteed crediting rates and surrender values on traditional business including the AFER fund. In the Netherlands, this relates mainly to maturity guarantees on unit linked products and interest rate guarantees on traditional individual and group profit sharing business.

Business included in EEV calculations

Principle 2 – Covered business

Consistent with the Achieved Profits basis, the EEV principles have been applied to all of the Group's life savings and pensions operations. In addition, the equity release business in the UK has also been included as covered business within the EEV calculations.

Principle 9 – Assessment of appropriate projection assumptions

Assumptions for operational expenses continue to be assessed using best estimates of expected experience. The EEV principles have introduced the concept of "look through", which requires taking account of the normalised recurring level of profits or losses of the Group's life service company operations within the embedded value. In addition, the Group also looks through the service arrangement between life businesses and the in-house fund management operations that manage the assets of the life funds. The most significant arrangements are in the UK, where Norwich Union Life Services Ltd (NULS) and Morley Fund Management provide administration and investment management services respectively to all of the UK life product companies.

As a result of the adoption of the look through principle, the reported UK life result on an EEV basis reflects the results of the life operations, the life service company and that element of Morley's result which relates to the management of the UK life funds. There are also similar effects for other business units with service and holding companies, though the impact is less significant.

Impact of changes in expense allowances

The look through value attributable to fund management is based on the level of after-tax profits in respect of services provided to the Group's life operations and has the effect of improving the embedded value of the Group by £100 million at 30 June 2004 (31 December 2003: £94 million). The EEV basis profit and loss account therefore excludes the actual statutory basis profits arising from the provision of these services to the Group's life businesses from the fund management segment. Instead the life and related businesses segment of the profit and loss account includes the experience profit or loss compared to the assumed profitability, the return on the in-force value arising from the unwind at the risk discount rate (which includes the service profits arising in the period) and the effect on the in-force value of changes to economic and operating assumptions. Furthermore, fund management service profits are also taken into account in valuing new business contribution.

For administration services in the UK, under the Achieved Profits basis of reporting, the result for NULS was included within the non-insurance segment on a statutory basis and broadly comprised the difference between costs incurred and costs recharged to the product companies. The reported losses reflected, in part, the fact that NULS has been incurring maintenance expenses overruns since 2002. In addition, significant project expenditure has been incurred on productivity and cost saving initiatives including branch closures, transformation and outsourcing projects.

The EEV principles require us to look through to the underlying expenses of NULS. Accordingly, the actual maintenance expenses and a normal annual level of project expense allowances relating to the product companies have been capitalised, reducing the overall embedded value of the UK life operations as these expenses are in excess of the value of the fees charged. Service company expense overruns, over and above the revised expense allowances relating to the product companies are included in the profit and loss account under the life and related businesses segment as experience losses in the period that they occur. Typically, such experience losses will represent one-off productivity enhancing project costs incurred in the year. The consequential productivity gains will be recognised in subsequent periods once they have been secured.

In applying the look through principle, pension scheme costs in the UK have been allowed for at the current funding rate, including an allowance for the impact of funding the pension scheme deficit based on the agreed funding plan. As a result, the proportion of the pension scheme deficit relating to the UK life company is included within the embedded value of this business. Furthermore, the adoption of the EEV principles and the inclusion of NULS in the calculations have resulted in the recognition within EEV of the future funding obligations to the UK pension scheme in relation to future service costs.

The combined impact of adopting the EEV principles in respect of NULS on the UK life business valuation is a reduction of £429 million as at 30 June 2004 (31 December 2003: £436 million). The combined impact of other non-UK service arrangements is a further reduction of £42 million at 30 June 2004. Further information is provided on page 31 and 32.

Impact of EEV principles on operating return for life and related businesses

The table below shows the reconciliation for life operating return from the Achieved Profits basis to the EEV basis.

	6 months 2004 £m	Full year 2003 £m
Achieved profits basis	**800**	**1,555**
Impact of changes in economic assumptions	14	15
Impact of changes in the cost of required capital	(6)	(24)
Time value of options and guarantees	(11)	(12)
Impact of changes in expenses (including service and holding companies)	(14)	(57)
Other changes	16	19
European embedded value basis	**799**	**1,496**

	Restated 30 June 2004 £m	Originally reported 30 June 2004 £m	Restated 31 December 2003 £m	Originally reported 31 December 2003 £m
Analysed between:				
United Kingdom	345	356	597	659
Continental Europe	426	413	835	815
International	28	31	64	81
	799	**800**	**1,496**	**1,555**

In the UK, the reduction of £11 million (2003: reduction of £62 million) is as a result of the inclusion of the UK Life service company on a look through basis and the consequential reduction in expected returns. This has been partially offset by the positive impact of including the results of Morley asset management business for the management of the internal funds and the Norwich Union Equity Release (NUER) business. The higher impact in 2003 reflects expense experience losses arising from one-off productivity enhancing projects which were not factored into the revised UK expense allowances.

In Continental Europe, the improvement of £13 million (2003: improvement of £20 million) reflects economic assumption changes and the inclusion of the French asset management results on a look through basis, offset by changes attributable to higher levels of required capital and the time value of options and guarantees.

The reduction in the International result is driven by the removal of releases of risk margins that were made in the Achieved Profits results which, following the harmonisation of the economic basis, have not been mirrored under the EEV basis.

Impact of EEV principles on embedded value for life and related businesses

The table below shows the reconciliation of embedded value from the Achieved Profits basis to the EEV basis in respect of covered business.

	30 June 2004 £m	31 December 2003 £m	31 December 2002 £m
Achieved profits basis	**11,941**	**12,155**	**10,148**
Impact of changes in economic assumptions	431	531	497
Impact of changes in the cost of required capital	(319)	(308)	(274)
Time value of options and guarantees	(222)	(232)	(204)
Effect of revising economic basis	(110)	(9)	19
Impact of changes in expenses (including service and holding companies)	(371)	(382)	(380)
Other changes	13	(13)	(2)
European embedded value basis	**11,473**	**11,751**	**9,785**

Calculation of new business contribution, margins and internal rate of return

Principle 8 – New business and renewals

The Group's definition of new business under the previous methodology is consistent with Principle 8 and therefore there has been no change in our classification of premiums as new business or renewals.

The overall approach to the valuation of new business is consistent with our previous methodology. However, as a result of the impact of other EEV principles, the value of new business:

- allows for changes in economic assumptions including changes in required capital;
- incorporates the time value of options and guarantees;
- allows for look through expenses in Group-owned service and holding companies; and
- includes the equity release business of NUER.

On an aggregate basis, the value of new business contribution has increased both before and after the effect of required capital.

Although there is limited change to the calculation of the new business contribution, the calculation of the new business margin will change substantially as new business sales are now calculated as the present value of future new business premiums (PVNBP), rather than the current UK industry standard Annual Premium Equivalent (APE) measure of annual premiums plus 10% of single premiums. The change to the basis of calculating margins produces a more meaningful ratio, since profit and income are now calculated using consistent economic and operating assumptions.

New business contribution: Reconciliation of new business contribution before the effect of required capital from the Achieved Profits basis to the EEV basis

	6 months 2004 £m	**Full year 2003 £m**
Achieved profits basis	**324**	**621**
Impact of changes in economic assumption	27	35
Time value of options and guarantees	(10)	(19)
Impact of changes in expenses (including service and holding companies)	(4)	(12)
Other changes	1	21
European embedded value basis	**338**	**646**

New business contribution is substantially unchanged, notwithstanding the fact that the EEV basis calculation explicitly allows for the cost of guarantees and options. The inclusion of equity release business, included within other changes, contributes £5 million for the six months to 30 June 2004 (2003: £19 million).

Change in the calculation of new business premiums and margins

The calculation of the present value of new business premiums is equal to the discounted value of new regular premiums plus the total amount of single premiums received in the year. The discounted value of regular premiums is based on the term and assumptions for the persistency of the contracts sold. This can be expressed as a capitalisation factor, representing the discounted value of new regular premiums divided by the annualised amount of new regular premiums. The capitalisation factor will vary across business units and over time, depending on product mix sold in each quarter and local market dynamics. Average capitalisation factors for the business units in the six months to 30 June 2004 and the full year 2003 are shown in the table below.

	Capitalisation factors	
	6 months 2004	**Full year 2003**
United Kingdom	5.0	5.0
France	5.7	6.0
Ireland	5.2	5.5
Italy	5.9	6.5
Netherlands (including Belgium and Luxembourg)	6.8	7.0
Poland	5.9	6.1
Spain	5.9	5.5
Other Europe	5.4	4.2
International	4.0	4.0
Group Average	**5.3**	**5.3**

The average Group capitalisation factor for the six months to 30 June 2004 is 5.3 and is unchanged from the equivalent factor for the full year ended 31 December 2003. However there are changes at a business unit level which have offset each other. There are reductions in France, Ireland, Italy, the Netherlands and Poland, offset by increases in Spain and

Other Europe. Of the most significant movements, the reduction in Italy is driven by changes in product mix on a new portfolio of business acquired in 2003. In Spain the capitalisation factor has increased as a result of the change in the mix of pensions products sold, and in Other Europe the factor has increased as a result of changes in product mix in Lithuania and Turkey.

The table below sets out restated new business margins expressed as a percentage of the present value of new business premiums (the revised margin calculated using the traditional APE definition under Achieved Profits is also shown):

	Present value of new business premiums		**New business contribution[1]**		**New business margin[2] (using PVNBP)**		**New business margin[3] (using APE)**	
	6 months 2004 £m	**Full year 2003 £m**	**6 months 2004 £m**	**Full year 2003 £m**	**6 months 2004 %**	**Full year 2003 %**	**6 months 2004 %**	**Full year 2003 %**
Life and pensions business								
United Kingdom	4,299	8,516	127	250	3.0%	2.9%	22.4%	22.4%
Continental Europe	5,027	9,103	195	359	3.9%	3.9%	32.2%	32.0%
International	427	1,190	16	37	3.7%	3.1%	21.6%	19.8%
Total	**9,753**	**18,809**	**338**	**646**	**3.5%**	**3.4%**	**27.1%**	**26.6%**

(1) Before effect of solvency margin which amounted to £87 million for the 6 months 2004 (2003: £172 million).
(2) EEV basis new business margin represents the ratio of new business contribution to present value of new business premiums, expressed as a percentage.
(3) Achieved profits new business margin represents the ratio of new business contribution on an EEV basis to annual premium equivalent, expressed as a percentage.

Both margin trends are consistent with the trend previously reported.

The changes to the economic bases arising from the adoption of the EEV principles has also impacted the calculation of the post tax internal rate of return (IRR) on life and pensions new business. The restated new business IRR for the Group is lower for the 6 months to 30 June 2004 at 11.8% (2003: restated IRR at 12.4%). The reduction in IRR is mainly due to the increased cost of capital on new business and the inclusion of losses from the UK life service company, NULS.

Glossary

Annual premium equivalent (APE): UK industry standard for calculating life, pensions and investment new business levels. It equals the total of new annualised regular premiums plus 10% of single premiums.

Covered business: the contracts to which the EEV methodology has, in line with the *EEV Principles,* been applied.

Financial Options and Guarantees: features of the *covered business* conferring potentially valuable guarantees underlying, or options to change, the level or nature of policyholder benefits and exercisable at the discretion of the policyholder, whose potential value is impacted by the behaviour of financial variables.

Free Surplus: the amount of any capital and surplus allocated to, but not required to support, the in-force covered business.

Gross risk free yields: gross of tax yields on risk free fixed interest investments, generally Government bonds.

Holding Company: a legal entity with a function of being a consolidating entity for primary financial reporting of *covered business*.

Implicit items: amounts allowed by local regulators to be deducted from capital amounts when determining the EU required minimum margin.

Life EEV operating return: operating return on the EEV basis relating to the lines of business included in the embedded value calculations.

Life EEV return: total return on the EEV basis relating to the lines of business included in the embedded value calculations.

Look-through basis: inclusion of the capitalised value of profits and losses arising from subsidiary companies providing administration, investment management and other services to the extent that they relate to covered business.

Net asset value per share: net asset value divided by the number of ordinary shares in issue. Net asset value is based on equity shareholders' funds, adding back the equalisation provision at 30 June 2004 of £375 million (31 December 2003: £364 million).

New business margin: new business margins are calculated as the new business contribution divided by the present value of future new business premiums (PVNBP), and expressed as a percentage. Previously, under the Achieved Profits basis, they were expressed as new business contribution divided by premiums measured on an annual premium equivalent (APE) basis.

Present value of new business premiums (PVNBP): Present value of new regular premiums plus 100% of single premiums, calculated using assumptions consistent with those used to determine new business contribution.

Required Capital: the amount of assets, over and above the value placed on liabilities in respect of *covered business,* whose distribution to shareholders is restricted.

Service companies: companies providing administration or fund management services to the *covered business*.

Statutory Basis: the valuation basis and approach used for reporting financial statements to local regulators.

Stochastic Techniques: techniques that incorporate the potential future variability in assumptions affecting their outcome.

Time Value and Intrinsic Value: a financial option or guarantee has two elements of value, the *time value* and *intrinsic value*. The *intrinsic value* is the discounted value of the option or guarantee at expiry, assuming that future economic conditions follow best estimate assumptions. The *time value* is the additional value arising from uncertainty about future economic conditions.

Summarised consolidated profit and loss account – European embedded value (EEV) basis
For the six months ended 30 June 2004

6 months 2004 €m		6 months 2004 £m	Full year 2003 £m
	Operating profit		
1,174	Life EEV operating return	799	1,496
49	Health	33	61
15	Fund management[1]	10	(4)
901	General insurance	613	911
12	Non-insurance operations[2]	8	8
(138)	Corporate costs	(94)	(160)
(329)	Unallocated interest charges	(224)	(406)
1,684	**Operating profit before tax, amortisation of goodwill and exceptional items***	**1,145**	**1,906**
(72)	Amortisation of goodwill	(49)	(103)
(37)	Financial Services Compensation Scheme levy	(25)	-
1,575	Operating profit before tax	1,071	1,803
(716)	Variation from longer-term investment return	(487)	779
82	Effect of economic assumption changes	56	(55)
(16)	Change in the equalisation provision	(11)	(49)
9	Profit/(loss) on the disposal of subsidiary undertakings	6	(6)
(74)	Exceptional costs for termination of operations	(50)	(19)
860	**Profit on ordinary activities before tax**	**585**	**2,453**
(506)	Tax on operating profit before amortisation of goodwill and exceptional items	(344)	(563)
187	Tax credit/(charge) on other ordinary activities	127	(176)
541	**Profit on ordinary activities after tax**	**368**	**1,714**
(113)	Minority interests	(77)	(121)
428	**Profit for the financial period**	**291**	**1,593**
(13)	Preference dividends	(9)	(17)
415	**Profit for the financial period attributable to equity shareholders**	**282**	**1,576**
(310)	Ordinary dividends	(211)	(545)
105	**Retained profit for the financial period**	**71**	**1,031**

* All operating profit is from continuing operations.

[1] Excludes the proportion of the results of Morley's fund management businesses and of our French asset management operation Aviva Gestion d'Actifs (AGA) that arise from the provision of fund management services to our life businesses. These results are included within the life EEV operating return.

[2] Excludes the results of Norwich Union Equity Release. Also excludes the proportion of the results of Norwich Union Life Services relating to the services provided to the UK life business. Other subsidiaries providing services to our life businesses do not significantly impact the Group results. These results are included within the life EEV operating return.

Earnings per share – EEV basis
For the six months ended 30 June 2004

	6 months 2004	Full year 2003
Earnings per share		
Operating profit before amortisation of goodwill and exceptional items, after tax, attributable to equity shareholders *	31.9p	53.0p
Profit attributable to equity shareholders	12.5p	70.0p
Profit attributable to equity shareholders – diluted	12.4p	69.8p

* All operating profit is from continuing operations.

Consolidated statement of total recognised gains and losses – EEV basis
For the six months ended 30 June 2004

	6 months 2004 £m	Full year 2003 £m
Profit for the financial period *	291	1,593
Foreign exchange (losses)/gains	(306)	415
Total recognised (losses)/gains arising in the period	**(15)**	**2,008**

* Stated before the effect of foreign exchange movements which are reported within the foreign exchange gain lines.

Reconciliation of movements in consolidated shareholders' funds
For the six months ended 30 June 2004

	6 months 2004 £m	Full year 2003 £m
Shareholders' funds at the beginning of the period on an achieved profits basis	**11,165**	**9,668**
Prior year adjustment	(413)	(364)
Shareholders' funds at the beginning of the period on an EEV basis	10,752	9,304
Total recognised (losses)/gains arising in the period	(15)	2,008
Dividends	(220)	(562)
Other movements	27	2
Shareholders' funds at the end of the period on an EEV basis	**10,544**	**10,752**

Summarised consolidated balance sheet – EEV basis
As at 30 June 2004

	30 June 2004 £m	31 December 2003 £m	31 December 2002 £m
Assets			
Goodwill	1,052	1,105	1,040
Investments			
Land and buildings	607	637	668
Investments in associated undertakings and participating interests	149	279	287
Variable yield securities	2,799	2,967	2,603
Fixed interest securities	9,734	10,098	7,737
Mortgages and loans, net of non-recourse funding	1,350	929	776
Deposits	744	435	550
Other investments	26	34	37
	15,409	15,379	12,658
Reinsurers' share of technical provisions	2,699	2,926	2,882
Reinsurers' share of provision for linked liabilities	636	579	337
Assets of the long-term business	136,613	136,709	123,051
Assets held to cover linked liabilities	42,921	40,665	29,538
Other assets	10,372	10,829	10,994
Acquired value of in-force long-term business	458	488	505
Additional value of in-force long-term business	4,355	4,340	3,553
Total assets	**214,515**	**213,020**	**184,558**
Capital, reserves and subordinated debt			
Shareholders' funds			
Equity	6,177	6,354	5,636
Non-equity	200	200	200
Minority interest	963	953	743
Additional retained profit on an EEV basis	4,167	4,198	3,468
Subordinated debt	2,751	2,814	1,190
Total capital, reserves and subordinated debt	**14,258**	**14,519**	**11,237**
Liabilities			
Liabilities of the long-term business	121,926	121,125	113,348
Fund for future appropriations	7,816	8,443	3,745
Technical provision for linked liabilities	43,557	41,244	29,875
General insurance liabilities	17,553	17,515	16,031
Borrowings	1,666	1,720	2,042
Other creditors and provisions	7,739	8,454	8,280
Total liabilities, capital, reserves and subordinated debt	**214,515**	**213,020**	**184,558**

Segmentation of summarised consolidated balance sheet – EEV basis
As at 30 June 2004

	Life and related businesses 30 June 2004 £m	General business and other 30 June 2004 £m	Group 30 June 2004 £m	Life and related businesses 31 December 2003 £m	General business and other 31 December 2003 £m	Group 31 December 2003 £m	Group 31 December 2002 £m
Total assets before acquired additional value of in-force long-term business	180,018	29,684	209,702	177,906	30,286	208,192	180,500
Acquired additional value of in-force long-term business	458	-	458	488	-	488	505
Total assets included in the modified statutory balance sheet	**180,476**	**29,684**	**210,160**	**178,394**	**30,286**	**208,680**	**181,005**
Liabilities of the long-term business	(173,147)	-	(173,147)	(170,765)	-	(170,765)	(146,930)
Liabilities of the general insurance business	-	(27,110)	(27,110)	-	(27,736)	(27,736)	(26,391)
Net assets on a modified statutory basis	**7,329**	**2,574**	**9,903**	**7,629**	**2,550**	**10,179**	**7,684**
Additional value of in-force long-term business [1]	**4,355**	**-**	**4,355**	**4,340**	**-**	**4,340**	**3,553**
Net assets on an EEV basis [2]	**11,684**	**2,574**	**14,258**	**11,969**	**2,550**	**14,519**	**11,237**
Shareholders' capital, share premium, shares held by employee trusts and merger reserves			4,604			4,622	4,710
Modified statutory basis retained profit			1,773			1,932	1,126
Additional retained profit on an EEV basis			4,167			4,198	3,468
Shareholders' funds on an EEV basis			**10,544**			**10,752**	**9,304**
Minority interests			963			953	743
			11,507			**11,705**	**10,047**
Subordinated debt			2,751			2,814	1,190
Total capital, reserves and subordinated debt			**14,258**			**14,519**	**11,237**

[1] The analysis between the Group's and the minority interest's share of the additional value of in-force long-term business is as follows:

	30 June 2004 £m	Movement in the period £m	31 December 2003 £m
Group's share included in shareholders' funds	4,167	(31)	4,198
Minority interest share	188	46	142
Balance	4,355	15	4,340

[2] The analysis of net assets of the life and related businesses on an EEV basis is as follows:

	30 June 2004 £m	31 December 2003 £m
Embedded value	11,473	11,751
RBSG goodwill	211	218
Long-term business net assets on an EEV basis	11,684	11,969

Basis of preparation – EEV basis

The consolidated profit and loss account and balance sheet statements on pages 10 to 13 present the Group's results and financial position for the life and related businesses (including Group service companies) on the European Embedded Value (EEV) basis and for its non life businesses on the modified statutory solvency basis. The EEV methodology adopted is in accordance with the EEV principles introduced by the CFO Forum in May 2004.

In the Directors' opinion, the EEV basis provides a more accurate reflection of the performance of the Group's life and related operations year on year than results presented under the modified statutory basis. The Directors consider that the EEV methodology is a refinement to the Achieved Profits basis previously adopted by the Group and represents the most meaningful basis of reporting the underlying value in our life business and the underlying drivers of performance. This basis allows for the impact of uncertainty in the future investment returns more explicitly and is consistent with the way the business is priced and managed.

The results for 2003 have been audited by the auditors, Ernst & Young LLP. The results for the six month period to 30 June 2004 are unaudited but have been reviewed by Ernst & Young LLP. Their reports in respect of the six month period to 30 June 2004 and the year to 31 December 2003 are shown on pages 49 and 50.

Covered business
The EEV calculations cover the following lines of business: life insurance, long term health and accident insurance, savings, pensions and annuity business written by our life insurance subsidiaries, including managed pension fund business and our share of the other life and related business written in our associated undertakings and joint ventures, as well as the equity release business written in the UK.

Covered business includes the Group's share of our joint venture operations including our arrangement with The Royal Bank of Scotland Group (RBSG) and our operations in India and China. For our joint venture with RBSG, the goodwill arising on the acquisition of the associate company, RBS Life Investments Limited, is included within the 'Amortisation of goodwill' on page 10.

In addition, the results of Group companies providing administration, investment management and other services and of Group holding companies have been included to the extent that they relate to covered business. Together these businesses are referred to as "Life and related businesses".

New business premiums
New business premiums include:

- premiums arising from the sales of new contracts during the period;
- non-contractual additional premiums, including future Department of Work and Pensions (DWP) rebate premiums; and
- the value of expected renewals on the new contracts and expected future contractual alterations to the new contracts.

For products sold to individuals, premiums are generally considered to represent new business in certain circumstances, including where a new contract has been signed, or where underwriting has been performed. Renewal premiums include contractual renewals, non-contractual variations that are reasonably predictable and recurrent single premiums that are pre-defined and reasonably predictable.

For group products, new business includes new contracts and increases to aggregate premiums under existing contracts. Renewal premiums are based on the level of premium received during the reporting period and allow for premiums expected to be received beyond the expiry of any guaranteed premium rates.

Foreign exchange adjustments
Embedded value and other balance sheet items denominated in foreign currencies have been translated to sterling using the appropriate closing exchange rate. New business contribution and other profit and loss items have been translated using an average exchange rate for the relevant period.

The closing euro exchange rates used in this announcement are €1 = £0.67 at 30 June 2004, €1 = £0.70 at 31 December 2003 and €1 = £0.65 at 31 December 2002. The average euro exchange rates are €1 = £0.68 for the six months to 30 June 2004 and €1 = £0.69 for the full year 2003.

Methodology

Overview
Under the EEV methodology, profit is recognised as it is earned over the life of products defined within covered business. 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.

Calculation of the embedded value
The shareholders' interest in the life and related businesses is represented by the embedded value. The embedded value is the total of the net worth of the life and related businesses and the value of in-force covered business. Calculations are performed separately for each business and are based on the cash flows of that business, after allowing for both external and intra-group reinsurance. Where one life business has an interest in another life business, the net worth of that business excludes the interest in the dependent company.

The embedded value is calculated 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, applying current legislation and practice together with future known changes.

Net worth
The net worth is 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, and consists of the required capital and free surplus. The level of required capital for each business, which ranges between 100% and 200% of the EU minimum solvency requirement for our main European businesses, reflects the level of capital considered by the Directors to be appropriate to manage the business, allowing for our internal assessment of the level of market, insurance and operating risk inherent in the underlying products. The same definition of required capital is used for both existing and new business. The free surplus comprises the market value of shareholder assets in excess of local statutory reserves and required capital.

Value of in-force covered business
The value of in-force covered business is the present value at the appropriate risk discount rate (which incorporates a risk margin) of the distributable profits to shareholders arising from the in-force covered business projected on a best estimate basis, less a deduction for the cost of holding the required level of capital.

Shareholders' distributable profits arise when they are released following actuarial valuations. These valuations 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, administration costs, as well as management and policyholder actions. Releases to shareholders arising in future years from the in-force covered business and associated required capital can be projected using best estimate assumptions of future experience.

The value of in-force covered business includes an allowance for the impact of financial options and guarantees arising from best estimate assumptions (the intrinsic value) and from additional costs related to the variability of investment returns (the time value). The intrinsic value is included in the underlying value of the in-force covered business using deterministic assumptions. The time value of financial options and guarantees has been determined using stochastic modelling techniques.

Stochastic modelling involves projecting the future cash flows of the business under thousands of economic scenarios that are representative of the possible future outcomes for market variables such as interest rates and equity returns. Allowance is made, where appropriate, for the effect of management and/or policyholder actions in different economic conditions on future assumptions such as asset mix, bonus rates and surrender rates. The time value is determined by deducting the average value of shareholder cash flows under these economic scenarios from the deterministic shareholder value under best estimate assumptions.

The cost of holding required capital is the difference between the required capital and the present value at the appropriate risk discount rate of the projected release of the required capital and investment earnings on the assets deemed to back the required capital.

The value of in-force covered business includes the capitalised value of profits and losses arising from subsidiary companies providing administration, investment management and other services to the extent that they relate to covered business. This is referred to as the "look through" into service company expenses. In addition, expenses arising in holding companies that relate directly to acquiring or maintaining covered business have been allowed for. Where external companies provide services to the life and related businesses, their charges have been allowed for in the underlying projected cost base.

Risk discount rates
Under the EEV methodology, a risk discount rate (RDR) is required to express a stream of expected future distributable profits as a single value at a particular date (the present value). It is the interest rate that an investment equal to the present value would have to earn in order to replicate exactly the stream of future profits. The RDR is a combination of a risk free rate to reflect the time value of money plus a risk margin to make prudent allowance for the risk that experience in future years may differ from that assumed. In particular, a risk margin is added to allow for the risk that expected additional returns on certain asset classes (e.g. equities) are not achieved.

Risk discount rates for our life businesses have been calculated using a risk margin based upon a Group Weighted Average Cost of Capital (WACC). The Group WACC is calculated using a gross risk free interest rate, an equity risk margin, a market assessed risk rate (beta), and an allowance for the gearing impact of debt financing (including subordinated debt). The market risk rate captures the market's view of the effect of all types of risk on our business, including operational and other non-economic risk.

The RDR is only one component of the overall allowance for risk in EEV calculations. Risk is also allowed for in the cost of holding statutory reserving margins, additional required capital and in the time value of options and guarantees. Hence to derive an RDR the Group WACC is adjusted to reflect the average level of required capital assumed to be held, and to reflect the explicit valuation of the time value of options and guarantees.

In order to derive risk discount rates for each of our life businesses, the adjusted Group WACC is expressed as a risk margin in excess of the gross risk free interest rate used in the WACC calculation as described above. Business-specific discount rates are then calculated as the sum of this risk margin and the appropriate local gross risk free rate at the valuation date, based on returns on government bonds. A common risk free rate, and hence a common RDR, is used for all of our businesses within the Eurozone.

The same risk margin is used for the United Kingdom and for all businesses within the Eurozone. Additional country-specific risk margins are applied to smaller businesses to reflect additional economic, political and business-specific risk. Within each business, a constant RDR has been applied in all future time periods and in each of the economic scenarios underlying the calculation of the time value of options and guarantees.

At each valuation date, the risk margin is reassessed based on current economic factors and is updated only if a significant change has occurred. In particular, changes in risk profile arising from movements in asset mix are allowed for via the updated risk margin calculation.

The Group's revised approach to establishing economic assumptions (specifically investment returns, required capital and discount rates) has been reviewed by Tillinghast, a firm of actuarial consultants, who have confirmed to the Directors that, for the life business in aggregate, the approach is based on the well established capital asset pricing model theory and is in line with the EEV Principles and Guidance.

Participating business
Future regular bonuses on participating business are projected in a manner consistent with current bonus rates and expected future returns on assets deemed to back the policies.

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 assets in the fund over the future lifetime of the in-force with-profit policies. However, under stochastic modelling there may be some extreme economic scenarios when the total assets in the Group's with-profit funds are not sufficient to pay all policyholder claims. The average additional shareholder cost arising from this shortfall has been included in the time value of options and guarantees.

For profit sharing business in Continental Europe, where policy benefits and shareholder value depend on the timing of realising gains, apportionment of unrealised gains between policyholders' benefits and shareholders reflect contractual requirements as well as existing practice. Where under certain economic scenarios additional shareholder injections are required to meet policyholder payments, this additional cost has been included in the time value of options and guarantees.

Consolidation adjustments
The effect of transactions between our life companies such as loans and reinsurance arrangements has been included in results split by territory in a consistent manner. No elimination is required on consolidation.

As the EEV methodology incorporates the impact of profits and losses arising from subsidiary companies providing administration, investment management and other services to the Group's life companies, the equivalent profits and losses have been removed from the relevant segment (non insurance or fund management) and are instead included within the results of life and related businesses. In addition, the underlying basis of calculation for these profits has changed from the modified statutory basis to the EEV basis.

The capitalised value of the future profits and losses from such service companies are included in the embedded value and new business contribution calculations for the relevant territory, but the net assets (representing historical profits and other amounts) remain under non insurance or fund management. In order to reconcile the profits arising in the financial period within each segment with the assets on the opening and closing balance sheets, a transfer of modified statutory profits from life and related business to the appropriate segment is deemed to occur. The same approach has been adopted for expenses within our holding companies.

Components of life EEV return
The life EEV return comprises the following components:

- new business contribution written during the period including value added between the point of sale and end of the period;
- the profit from existing business equal to:
  - the expected return on the value of the in-force covered 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 return based on economic assumptions used to calculate the start of year value; and
- the impact of changes in economic assumptions in the period.

The life EEV operating return comprises the first three of these components and is calculated using economic assumptions as at the start of the year and operating (demographic, expenses and tax) assumptions as at the end of the year.

Life EEV return	**6 months 2004 £m**	**Full year 2003 £m**
New business contribution (after the effect of required capital)	251	474
Profit from existing business		
– expected return	417	761
– experience variances	(20)	(31)
– operating assumption changes	-	19
Expected return on shareholders' net worth	151	273
Life EEV operating return before tax	**799**	**1,496**
Investment return variances	(202)	696
Effect of economic assumption changes	56	(55)
Life EEV return before tax	653	2,137
Tax on operating profit	(244)	(457)
Tax credit/(charge) on other ordinary activities	36	(175)
Life EEV return after tax	**445**	**1,505**

There were no separate development costs reported in either period.

New business contribution

The following tables set out the premium volumes and contribution from new business written by the life and related businesses, consistent with the definition of new business set out on page 14.

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. New 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. New business contribution has been calculated using the same economic assumptions as those used to determine the embedded value as at the start of the year and operating assumptions used to determine the embedded value as at the end of the year, and is rolled forward to the end of the financial period.

New business sales are expressed on two bases: annual premium equivalent (APE), the UK life industry's standard measure, and the present value of future new business premiums (PVNBP). The PVNBP calculation is equal to total single premium sales received in the year plus the discounted value of regular premiums expected to be received over the term of the new contracts, and is expressed at the point of sale. The premium volumes and projection assumptions used to calculate the present value of regular premiums for each product are the same as those used to calculate new business contribution, so the components of the new business margin are on a consistent basis.

New business contribution is shown before and after the effect of required capital, calculated on the same basis as for in-force covered business.

	Annual premium equivalent[1]		Present value of new business premiums		New business contribution before the effect of required capital		New business contribution after the effect of required capital	
	6 months 2004 £m	Full year 2003 £m	6 months 2004 £m	Full year 2003 £m	6 months 2004 £m	Full year 2003 £m	6 months 2004 £m	Full year 2003 £m
Life and pensions business								
United Kingdom	567	1,118	4,299	8,516	127	250	106	212
Continental Europe								
France	145	241	1,337	2,224	46	72	27	39
Ireland	44	81	267	529	13	28	11	26
Italy	89	194	811	1,752	22	45	14	27
Netherlands (including Belgium and Luxembourg)	119	224	981	1,821	40	69	25	29
Poland	18	35	121	226	5	5	4	3
Spain	130	246	1,122	1,964	68	141	55	122
Other Europe	58	101	388	587	1	(1)	(2)	(6)
International	74	187	427	1,190	16	37	11	22
Total (before the effect of required capital)	**1,244**	**2,427**	**9,753**	**18,809**	**338**	**646**		
Effect of required capital					**(87)**	**(172)**		
Total (after the effect of required capital)					**251**	**474**	**251**	**474**

(1) APE has been restated to include NUER volumes

New business contribution before the effect of required capital includes minority interests in 2004 of £56 million (2003: £109 million). This comprises minority interests in France of £2 million (2003: £3 million), Italy £13 million (2003: £25 million), Netherlands £5 million (2003: £8 million), Poland £1 million (2003: £1 million) and Spain £35 million (2003: £72 million).

New business contribution after the effect of required capital includes minority interests in 2004 of £42 million (2003: £86 million). This comprises minority interests in France of nil (2003: nil), Italy £8 million (2003: £15 million), Netherlands £4 million (2003: £7 million), Poland £1 million (2003: £1 million) and Spain £29 million (2003: £63 million).

EEV basis – new business contribution before the effect of required capital, tax and minority interest

	Annual premium equivalent[1]		Present value of new business premiums		New business contribution	
	6 months 2004 £m	Full year 2003 £m	6 months 2004 £m	Full year 2003 £m	6 months 2004 £m	Full year 2003 £m
Analysed between:						
- Bancassurance channels	275	542	2,305	4,440	116	224
- Other distribution channels	969	1,885	7,448	14,369	222	422
Total	**1,244**	**2,427**	**9,753**	**18,809**	**338**	**646**

(1) APE has been restated to include NUER volumes

EEV basis – new business contribution after the effect of required capital, tax and minority interest

	Annual premium equivalent[1]		Present value of new business premiums		New business contribution	
	6 months 2004 £m	Full year 2003 £m	6 months 2004 £m	Full year 2003 £m	6 months 2004 £m	Full year 2003 £m
Analysed between:						
- Bancassurance channels	154	312	1,263	2,499	35	66
- Other distribution channels	928	1,796	7,288	14,148	111	206
Total	**1,082**	**2,108**	**8,551**	**16,647**	**146**	**272**

(1) APE has been restated to include NUER volumes
(2) Contribution stated after deducting the effect of required capital, tax and minority interests.

Experience variances
Experience variances include the impact of the difference between expense, demographic and persistency assumptions, and actual experience incurred in the year. Also included are variances arising from tax, where such variances are due to management action.

	6 months 2004		Full year 2003	
	Restated £m	Originally reported £m	Restated £m	Originally reported £m
United Kingdom	(19)	(18)	(41)	(10)
France	2	9	56	54
Netherlands (including Belgium and Luxembourg)	(1)	(3)	(60)	(58)
Europe	5	6	9	15
International	(7)	(7)	5	(13)
	(20)	**(13)**	**(31)**	**(12)**

Operating assumption changes
Changes in operating assumptions are made when the assumed future levels of expenses, mortality or other operating assumptions are expected to change permanently.

	6 months 2004		Full year 2003	
	Restated £m	Originally reported £m	Restated £m	Originally reported £m
United Kingdom	7	-	1	(4)
France	(1)	(1)	(27)	(23)
Netherlands (including Belgium and Luxembourg)	3	7	28	21
Europe	(10)	(10)	23	36
International	1	-	(6)	8
	-	**(4)**	**19**	**38**

Further disclosures on experience variances and operating assumption changes on an EEV basis are provided on page 34.

Geographical analysis of life EEV operating return

	6 months 2004 £m	Full year 2003 £m
United Kingdom	345	597
Continental Europe		
France	112	228
Ireland	16	57
Italy	36	70
Netherlands (including Belgium and Luxembourg)	132	198
Poland	35	99
Spain	81	165
Other Europe	14	18
International	28	64
	799	**1,496**

Life EEV operating return includes minority interests in 2004 of £83 million (2003: £157 million). This comprises minority interests in France of £4 million (2003: £4 million), Italy £20 million (2003: £37 million), Netherlands £14 million (2003: £13 million), Poland £5 million (2003: £21 million), Spain £39 million (2003: £81 million) and Other Europe £1 million (2003: £1 million).

Analysis of movement in life and related businesses embedded value

The following tables provide an analysis of the movement in embedded value for the life and related businesses for the 6 months to 30 June 2004 and for the full year to 31 December 2003. The analysis is shown separately for net worth and the value of in force covered business, and includes amounts transferred between these categories.

The transfer from life and related businesses to other segments consists of service company profits and losses during the reported period that have emerged from the value of in force. Since the "look through" into service companies includes only future profits and losses, these amounts must be eliminated from the closing embedded value.

All figures are shown net of tax.

		6 months 2004		
		Net worth £m	**Value of in-force £m**	**Total £m**
Embedded value at the beginning of the period	- Free surplus	1,721		
	- Required capital [1]	4,114		
	Total	**5,835**	**5,916**	**11,751**
New business contribution (after the effect of required capital)		(280)	454	174
Expected return on existing business – return on VIF		-	294	294
Expected return on existing business – transfer to net worth		341	(341)	-
Experience variances and operating assumption changes		47	(64)	(17)
Expected return on shareholders' net worth		105	-	105
Investment return variances and economic assumption changes		(9)	(102)	(111)
Life EEV return after tax		**204**	**241**	**445**
Exchange rate movements		(256)	(63)	(319)
Embedded value of businesses acquired		-	-	-
Amounts injected into life and related businesses		39	-	39
Amounts released from life and related businesses		(458)	-	(458)
Transfer from life and related businesses to other segments		15	-	15
Embedded value at the end of the period	- Free surplus	1,399		
	- Required capital [1]	3,980		
	Total	**5,379**	**6,094**	**11,473**

[1] Required capital is shown net of implicit items permitted by local regulators to cover minimum solvency margins.

	Full year 2003		
	Net worth £m	**Value of in-force £m**	**Total £m**
Embedded value at the beginning of the year	**4,616**	**5,169**	**9,785**
New business contribution (after the effect of required capital)	(581)	908	327
Expected return on existing business – return on VIF	-	533	533
Expected return on existing business – transfer to net worth	774	(774)	-
Experience variances and operating assumption changes	147	(157)	(10)
Expected return on shareholders' net worth	190	-	190
Investment return variances and economic assumption changes	395	70	465
Life EEV return after tax	**925**	**580**	**1,505**
Exchange rate movements	222	120	342
Embedded value of businesses acquired	17	47	64
Amounts injected into life and related businesses	231	-	231
Amounts released from life and related businesses	(205)	-	(205)
Transfer from life and related businesses to other segments	29	-	29
Embedded value at the end of the year - Free surplus	1,721		
- Required capital [1]	4,114		
Total	**5,835**	**5,916**	**11,751**

[1] Required capital is shown net of implicit items permitted by local regulators to cover minimum solvency margins.

The embedded value of businesses acquired in 2003 of £64 million represents the embedded value of Delta Lloyd ABN AMRO Verzekeringen Holding BV, the insurance company acquired as part of the bancassurance agreement entered into with ABN AMRO NV in the Netherlands.

The embedded value at the end of the six month period 30 June 2004 includes minority interests of £589 million (2003: £568 million). This comprises minority interests in France of £55 million (2003: £51 million), Italy £224 million (2003: £222 million), Netherlands £52 million (2003: £44 million), Poland £65 million (2003: £72 million), Spain £191 million (2003: £176 million) and Other Europe £2 million (2003: £3 million).

Segmental analysis of life and related businesses embedded value

	Net worth		Value of in-force covered business		
	Required capital [1]	Free surplus	Present value of in-force	Cost of required capital	Embedded value
30 June 2004	**£m**	**£m**	**£m**	**£m**	**£m**
United Kingdom[2]	1,230	392	3,803	(389)	5,036
Continental Europe					
France	986	63	753	(182)	1,620
Ireland	71	191	310	(17)	555
Italy	211	108	166	(58)	427
Netherlands (including Belgium and Luxembourg)	868	354	1,311	(299)	2,234
Poland	79	42	310	(29)	402
Spain	173	21	329	(51)	472
Other	110	27	83	(31)	189
International	252	201	149	(64)	538
	3,980	**1,399**	**7,214**	**(1,120)**	**11,473**

[1] Required capital is shown net of implicit items permitted by local regulators to cover minimum solvency margins.
[2] The movement in the net worth from that previously reported under Achieved Profits is £147m and relates to the reclassification of NUER's VIF from net worth to the present value of future in-force.

	Net worth		Value of in-force covered business		Embedded value	
	31 December 2003 £m	31 December 2002 £m	31 December 2003 £m	31 December 2002 £m	31 December 2003 £m	31 December 2002 £m
United Kingdom[1]	1,995	1,756	3,205	2,848	5,200	4,604
Continental Europe						
France	1,012	833	547	493	1,559	1,326
Ireland	270	218	307	275	577	493
Italy	348	250	87	84	435	334
Netherlands (including Belgium and Luxembourg)	1,267	859	1,087	896	2,354	1,755
Poland	148	129	306	269	454	398
Spain	187	149	259	190	446	339
Other	140	128	44	36	184	164
International	468	294	74	78	542	372
	5,835	**4,616**	**5,916**	**5,169**	**11,751**	**9,785**

[1] The movement in the net worth from that previously reported under Achieved Profits is £146m at 31 December 2003 (31 December 2002: £89m) and relates to the reclassification of NUER's VIF from net worth to the present value of future in-force.

The shareholders' net worth is 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. Required capital, net of implicit items, of £3,980 million at 30 June 2004 (31 December 2003: £4,114 million) is included within the net worth.

The value of in-force covered business includes the effect of holding shareholders' capital to support the level of required capital and allowing for projected future releases. This impact reduces the value of in-force covered business at 30 June 2004 by £1,120 million (31 December 2003: £1,049 million).

On a statutory solvency basis, the minimum statutory solvency margin requirement supported by shareholders' capital is £3,200 million at 30 June 2004 (31 December 2003: £3,100 million). The effect of holding the minimum statutory solvency margin reduces the value of in-force covered business at 30 June 2004 by £900 million (31 December 2003: £900 million).

Time value of options and guarantees

The following table sets out the time value of options and guarantees relating to covered business by territory at 30 June 2004, 31 December 2003 and 31 December 2002.

	30 June 2004 £m	31 December 2003 £m	31 December 2002 £m
United Kingdom	35	36	26
Continental Europe			
France	66	71	58
Ireland	6	6	3
Italy	11	10	11
Netherlands (including Belgium and Luxembourg)	72	76	70
Poland	4	4	3
Spain	10	10	9
Other Europe	10	10	10
International	8	9	14
	222	**232**	**204**

The time value of options and guarantees is most significant in the United Kingdom, France and the Netherlands. In the United Kingdom, this relates mainly to no-MVA guarantees on unitised with-profit business and guaranteed annuity rates. In France, this relates mainly to guaranteed crediting rates and surrender values on traditional business including the AFER fund. In the Netherlands, this relates mainly to maturity guarantees on unit linked products and interest rate guarantees on traditional individual and group profit sharing business.

Minority interest in life and related businesses EEV results

	6 months 2004		
	Shareholders' interest £m	**Minority interest £m**	**Group £m**
New business contribution before effect of required capital	282	56	338
Effect of required capital	(73)	(14)	(87)
New business contribution including effect of required capital	**209**	**42**	**251**
Life EEV operating return before tax	**716**	**83**	**799**
Life EEV return before tax	564	89	653
Attributed tax	(177)	(31)	(208)
Life EEV return after tax	**387**	**58**	**445**
Closing life and related businesses embedded value	**10,884**	**589**	**11,473**

	Full year 2003		
	Shareholders' interest £m	**Minority interest £m**	**Group £m**
New business contribution before effect of required capital	537	109	646
Effect of required capital	(149)	(23)	(172)
New business contribution including effect of required capital	**388**	**86**	**474**
Life EEV operating return before tax	**1,339**	**157**	**1,496**
Life EEV return before tax	2,004	133	2,137
Attributed tax	(588)	(44)	(632)
Life EEV return after tax	**1,416**	**89**	**1,505**
Closing life and related businesses embedded value	**11,183**	**568**	**11,751**

Principal economic assumptions – deterministic calculations

Economic assumptions are derived actively, based on market yields on risk-free fixed interest assets at the end of each reporting period. The same margins are applied on a consistent basis across the Group to gross risk-free yields to obtain investment return assumptions for ordinary shares and property and to produce risk discount rates. Expense inflation is derived as a fixed margin above a local measure of long term price inflation. Risk free rates and price inflation have been harmonised across territories within the Euro currency zone, except for expense inflation in Ireland where significant differences remain. Required capital is shown as a multiple of the EU statutory minimum solvency margin.

Investment return assumptions are generally derived by major product class, based on hypothecating the assets at the valuation date. Assumptions about future investment mix are consistent with long-term plans. In most cases, the investment mix is assumed to continue unchanged throughout the projection period. The changes in assumptions between reporting dates reflect the actual movements in risk free yields in the United Kingdom, the Eurozone and other territories. The principal economic assumptions used are as follows:

	United Kingdom			France		
	30 Jun 2004	**31 Dec 2003**	**31 Dec 2002**	**30 Jun 2004**	**31 Dec 2003**	**31 Dec 2002**
Risk discount rate	7.8%	7.5%	7.2%	7.0%	7.0%	7.0%
Pre-tax investment returns:						
Base government fixed interest	5.1%	4.8%	4.5%	4.3%	4.3%	4.3%
Ordinary shares	8.1%	7.8%	7.5%	7.3%	7.3%	7.3%
Property	7.1%	6.8%	6.5%	6.3%	6.3%	6.3%
Future expense inflation	3.5%	3.4%	2.8%	2.5%	2.5%	2.5%
Tax rate	30.0%	30.0%	30.0%	35.4%	35.4%	35.4%
Required Capital (% EU minimum)	200% / 100%	200% / 100%	200% / 100%	115%	115%	115%

	Ireland			Italy		
	30 Jun 2004	**31 Dec 2003**	**31 Dec 2002**	**30 Jun 2004**	**31 Dec 2003**	**31 Dec 2002**
Risk discount rate	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Pre-tax investment returns:						
Base government fixed interest	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%
Ordinary shares	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%
Property	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%
Future expense inflation	4.0%	4.0%	4.0%	2.5%	2.5%	2.5%
Tax rate	12.5%	12.5%	12.5%	38.3%	38.3%	39.8%
Required Capital (% EU minimum)	150%	150%	150%	115%	115%	115%

	Netherlands			Poland		
	30 Jun 2004	**31 Dec 2003**	**31 Dec 2002**	**30 Jun 2004**	**31 Dec 2003**	**31 Dec 2002**
Risk discount rate	7.0%	7.0%	7.0%	11.2%	9.7%	11.7%
Pre-tax investment returns:						
Base government fixed interest	4.3%	4.3%	4.3%	7.5%	6.0%	8.0%
Ordinary shares	7.3%	7.3%	7.3%	10.5%	9.0%	11.0%
Property	6.3%	6.3%	6.3%	n/a	n/a	n/a
Future expense inflation	2.5%	2.5%	2.5%	4.9%	3.4%	5.4%
Tax rate	25.0%	25.0%	25.0%	19.0%	19.0%	27.0%
Required Capital (% EU minimum)	150%	150%	150%	150%	150%	150%

	Spain		
	30 Jun 2004	**31 Dec 2003**	**31 Dec 2002**
Risk discount rate	7.0%	7.0%	7.0%
Pre-tax investment returns:			
Base government fixed interest	4.3%	4.3%	4.3%
Ordinary shares	7.3%	7.3%	7.3%
Property	6.3%	6.3%	6.3%
Future expense inflation	2.5%	2.5%	2.5%
Tax rate	35.0%	35.0%	35.0%
Required Capital (% EU minimum)	125% / 110%	125% / 110%	125% / 110%

Future returns on corporate fixed interest investments are calculated from prospective yields less an adjustment for credit risk. Required capital in the United Kingdom is 200% EU minimum for Norwich Union Annuities Ltd and 100% for other companies. Required capital in Spain is 125% EU minimum for Aviva Vida y Pensiones and 110% for bancassurance companies.

Other economic assumptions

Required capital relating to with-profit business is assumed to be covered by the surplus within the with-profit funds and no effect has been attributed to shareholders.

Bonus rates on participating 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.

Principal economic assumptions – stochastic calculations

The time value of options and guarantees calculation allows for expected management and policyholder actions in response to varying future investment conditions. The management actions modelled include changes to asset mix and bonus rates. Modelled policyholder actions are described under "Other assumptions".

This section describes the models used to generate future investment simulations, and gives some sample statistics for the simulations used. Two separate models have been used, for the UK businesses and for the Europe and International businesses, as these models better reflect the characteristics of the businesses.

United Kingdom

Model
Overall asset returns have been generated assuming that the portfolio total return has a lognormal distribution. The mean and standard deviation of the overall asset return have been calculated using the asset mix of the fund and assumptions for the mean and standard deviation of each asset class, together with correlations between them.

Asset Classes
The significant asset classes for UK participating business are equities, property and long term fixed rate bonds.

Summary Statistics
The following table sets out the means and standard deviations (St Dev) of future returns at 31 December 2003 for the three most significant asset classes. The figures at 31 December 2002 and 30 June 2004 are similar.

	Mean[1]	St Dev[2]
Equities	7.8%	20.0%
Property	6.8%	15.0%
Government Bonds	4.8%	2.5%

For the UK, the statistics are the same over all projection horizons. The low assumed volatility for bonds reflects the degree of matching, by duration, with the liabilities.

Assumptions are also required for correlations between asset classes. These have been set based on an internal assessment of historical data. Returns for corporate fixed interest investments in each scenario are equal to the return on Government bonds plus a fixed additional amount, based on current spreads less a margin for credit risk.

Continental Europe and International

Model
Government nominal interest rates are generated by a model that projects a full yield curve at annual intervals. The model assumes that the logarithm of the short rate follows a mean reverting process subject to two normally distributed random shocks. This ensures that nominal interest rates are always positive, the distribution of future interest rates remains credible, and the model can be calibrated to give a good fit to the initial yield curve.

The total annual return on equities is calculated as the return on 1 year bonds plus an excess return. The excess return is assumed to have a lognormal distribution. The model also generates property total returns and real yield curves, although these are not significant asset classes for Aviva outside the UK.

Asset Classes
The most important assets are fixed rate bonds of various durations. In some businesses equities are also an important asset class.

Summary Statistics
The following table sets out the means and standard deviations of future euro returns at 31 December 2003 for the three most significant asset classes: equities, short term bonds (defined to be of 1 year duration) and long term bonds (defined to be 10 year zero coupon bonds). In the accumulation of 10 year bonds, it is assumed that these are held for one year, sold as 9 year bonds then the proceeds are reinvested in 10 year bonds, although in practice businesses follow more complex asset strategies or tend to adopt a buy and hold strategy. The results at 31 December 2002 and 30 June 2004 are similar.

	5- year return		10- year return		20- year return	
	Mean[1]	St Dev[2]	Mean[1]	St Dev[2]	Mean[1]	St Dev[2]
Short Government Bonds	3.3%	1.9%	4.0%	4.1%	4.8%	7.7%
Long Government Bonds	4.1%	5.4%	4.7%	4.2%	5.2%	4.5%
Equities	6.7%	20.2%	7.3%	19.9%	7.7%	20.0%

Correlations between asset classes have been set using the same approach as described for the United Kingdom.

[1] Means have been calculated by accumulating a unit investment for the required number of years in each simulation, averaging the accumulation across all simulations, and converting the result to an equivalent annual rate (by taking the nth root of the average accumulation minus 1).
[2] Standard deviations have been calculated by accumulating a unit investment for the required number of years in each simulation, taking the natural logarithm of the result, calculating the variance of this statistic, dividing by the projection period (n years) and taking the square root. This makes the result comparable to implied volatilities quoted in investment markets.

Other assumptions

Taxation
Current tax legislation and rates have been assumed to continue unaltered, except where changes in future tax rates have been announced.

Demographic assumptions
Assumed future mortality, morbidity and lapse rates have been derived from an analysis of Aviva's recent operating experience. Where appropriate, surrender and option take up rate assumptions that vary according to the investment scenario under consideration have been used in the calculation of the time value of options and guarantees, based on our assessment of likely policyholder behaviour in different investment scenarios.

Expense assumptions
Management expenses and operating expenses of holding companies attributed to life and related businesses have been included in the EEV calculations and split between expenses relating to the acquisition of new business, the maintenance of business in-force and project expenses. Future expense assumptions include an allowance for maintenance expenses and a proportion of recurring project expenses. Certain expenses of an exceptional nature, when they occur, are identified separately and are generally charged as incurred. No future productivity gains have been anticipated.

Where subsidiary companies provide administration, investment management or other services to businesses included in the European embedded value calculations, the value of profits or losses arising from these services have been included in the embedded value and new business contribution.

Other
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, except where driven by varying future investment conditions under stochastic economic scenarios.

Sensitivity analysis – economic assumptions

The tables below show the sensitivity of the embedded value as at 31 December 2003 and the new business contribution before the effect of required capital for the full year 2003 to:

- one percentage point increase and decrease in the discount rates;
- one percentage point increase and decrease in interest rates, including all consequential changes (assumed investment returns for all asset classes, market values of fixed interest assets, risk discount rates);
- one percentage point increase and decrease in the assumed investment returns for equity and property investments, excluding any consequential changes to the risk discount rate;
- 10% rise and fall in market value of equity and property assets (not applicable for new business contribution); and
- decrease in the level of required capital to 100% EU minimum (or equivalent) (not applicable for new business contribution).

In each sensitivity calculation, all other assumptions remain unchanged except where they are directly affected by the revised economic conditions. For example, future bonus rates are automatically adjusted to reflect sensitivity changes to future investment returns.

Embedded value 31 December 2003	**As reported on page 22 £m**	**1% increase in discount rates £m**	**1% decrease in discount rates £m**	**1% increase in interest rates £m**	**1% decrease in interest rates £m**
United Kingdom	5,200	(290)	310	(165)	165
Continental Europe					
France	1,559	(100)	110	(65)	50
Ireland	577	(25)	30	-	-
Italy	435	(15)	20	10	(15)
Netherlands (including Belgium and Luxembourg)	2,354	(160)	200	70	(215)
Poland	454	(20)	25	-	-
Spain	446	(25)	25	(15)	15
Other	184	(5)	5	10	(20)
International	542	(20)	20	(20)	20
	11,751	**(660)**	**745**	**(175)**	**0**

Embedded value 31 December 2003	**As reported on page 22 £m**	**1% increase in equity / property returns £m**	**1% decrease in equity / property returns £m**	**10% rise in equity / property market values £m**	**10% fall in equity / property market values £m**	**EU minimum capital £m**
United Kingdom	5,200	175	(185)	250	(250)	120
Continental Europe						
France	1,559	55	(55)	140	(180)	30
Ireland	577	15	(15)	25	(25)	5
Italy	435	20	(20)	5	(5)	5
Netherlands (including Belgium and Luxembourg)	2,354	175	(175)	300	(300)	100
Poland	454	5	(5)	5	(5)	10
Spain	446	5	(5)	5	(5)	5
Other	184	10	(10)	10	(20)	10
International	542	-	-	5	(5)	25
	11,751	**460**	**(470)**	**745**	**(795)**	**310**

New business contribution Full year 2003	As reported on page 18 £m	1% increase in discount rates £m	1% decrease in discount rates £m	1% increase in interest rates £m	1% decrease in interest rates £m
United Kingdom	250	(45)	45	(20)	20
Continental Europe					
France	72	(7)	9	(1)	-
Ireland	28	(4)	5	-	-
Italy	45	(2)	3	(1)	1
Netherlands (including Belgium and Luxembourg)	69	(15)	20	5	(25)
Poland	5	(1)	1	-	-
Spain	141	(10)	11	(2)	-
Other	(1)	(1)	1	1	1
International	37	(6)	7	(1)	1
	646	**(91)**	**102**	**(19)**	**(2)**

New business contribution Full year 2003	As reported on page 18 £m	1% increase in equity/property returns £m	1% decrease in equity/property returns £m
United Kingdom	250	27	(33)
Continental Europe			
France	72	3	(3)
Ireland	28	2	(2)
Italy	45	-	-
Netherlands (including Belgium and Luxembourg)	69	14	(13)
Poland	5	-	-
Spain	141	-	-
Other	(1)	-	-
International	37	-	-
	646	**46**	**(51)**

The results of the sensitivities at 30 June 2004 are similar.

Sensitivity analysis – non-economic assumptions

The tables below show the sensitivity of the embedded value as at 31 December 2003 and the new business contribution before the effect of required capital for the full year 2003 to the following changes in non-economic assumptions:

- 10% decrease in maintenance expenses (a 10% sensitivity on a base expense assumption of £10pa would represent an expense assumption of £9pa). Where there is a "look through" into service company expenses, the fee charged by the service company is unchanged while the underlying expense decreases;
- 10% decrease in lapse rates (a 10% sensitivity on a base assumption of 5%pa would represent a lapse rate of 4.5%pa);
- 10% decrease in both mortality and morbidity rates.

In each sensitivity calculation, all other assumptions remain unchanged.

Embedded value 31 December 2003	**As reported on page 22 £m**	**10% decrease in maintenance expenses £m**	**10% decrease in lapse rates £m**	**10% decrease in mortality / morbidity rates £m**
United Kingdom	5,200	150	20	(80)
Continental Europe				
France	1,559	25	15	25
Ireland	577	5	5	15
Italy	435	5	-	5
Netherlands (including Belgium and Luxembourg)	2,354	65	5	(25)
Poland	454	15	20	10
Spain	446	5	15	5
Other	184	-	-	-
International	542	10	10	10
	11,751	**280**	**90**	**(35)**

New business contribution Full year 2003	**As reported on page 18 £m**	**10% decrease in maintenance expenses £m**	**10% decrease in lapse rates £m**	**10% decrease in mortality / morbidity rates £m**
United Kingdom	250	14	11	8
Continental Europe				
France	72	2	2	2
Ireland	28	2	1	1
Italy	45	1	1	1
Netherlands (including Belgium and Luxembourg)	69	10	1	5
Poland	5	1	1	1
Spain	141	4	12	7
Other	(1)	-	-	1
International	37	2	3	3
	646	**36**	**32**	**29**

The results of the sensitivities at 30 June 2004 are similar.

Other notes

1. Earnings per share

(a) Basic earnings per share

	6 months 2004			Full year 2003		
	Before tax £m	Net of tax, minorities and preference dividends £m	Per share p	Before tax £m	Net of tax, minorities and preference dividends £m	Per share p
Operating profit	1,145	719	31.9	1,906	1,193	53.0
Adjusted for the following items:						
– Amortisation of goodwill	(49)	(49)	(2.2)	(103)	(103)	(4.6)
– Financial Services Compensation Scheme levy	(25)	(18)	(0.8)	-	-	-
– Exceptional costs for termination of operations	(50)	(42)	(1.9)	(19)	(16)	(0.7)
– Variation from longer-term investment return	(487)	(368)	(16.3)	779	582	25.8
– Effect of economic assumption changes	56	42	1.9	(55)	(40)	(1.7)
– Change in the equalisation provision	(11)	(8)	(0.4)	(49)	(34)	(1.5)
– Profit/(loss) on the disposal of subsidiary undertakings	6	6	0.3	(6)	(6)	(0.3)
Profit attributable to equity shareholders	**585**	**282**	**12.5**	**2,453**	**1,576**	**70.0**

Earnings per share has been calculated based on the operating profit before amortisation of goodwill and exceptional items, after tax, attributable to equity shareholders, for continuing and for total operations, as well as on the profit attributable to equity shareholders. The Directors believe the former two earnings per share figures provide a better indication of operating performance. The calculation of basic earnings per share uses a weighted average of 2,252 million (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 2,257 million (31 December 2003: 2,257 million).

(b) Diluted earnings per share

	6 months 2004			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
Profit attributable to equity shareholders	282	2,252	12.5	1,576	2,251	70.0
Dilutive effect of share awards and options	-	18	(0.1)	-	8	(0.2)
Diluted earnings per share	**282**	**2,270**	**12.4**	**1,576**	**2,259**	**69.8**

2. Non-insurance operations – operating result

	30 June 2004 £m	Full year 2003 £m
Hill House Hammond	1	4
Personal finance subsidiaries	-	-
Norwich Union Life Services	1	2
Your Move	8	1
Other	(2)	1
	8	**8**

The business of Norwich Union Equity Release and the profits or losses of Norwich Union Life Services on services provided to the UK life business have been incorporated in the results of the covered business and reclassified within the life EEV operating return. As a consequence, the operating result from non-insurance operations on the modified statutory basis has increased by £23 million in the six months ended 30 June 2004 (31 December 2003: £72 million).

3. Impact of Changes in Expense Allowances

The EEV methodology incorporates the impact of profits and losses arising from subsidiary undertakings providing administration, investment management and other services where these arise in relation to covered business. The principal subsidiaries of the Aviva group providing such services are NU Life Services Ltd (UK), Morley Fund Management (UK) and Aviva Gestion d'Actifs (France). The following table analyses the effect of incorporating such profits and losses within the life and other related business embedded value:

	30 June 2004			31 December 2003	31 December 2002
	Fund Management £m	Non-Insurance £m	Total £m	Total £m	Total £m
United Kingdom	51	(429)	(378)	(388)	(372)
France	38	(11)	27	27	22
Other Europe and International	11	(31)	(20)	(21)	(30)
	100	(471)	(371)	(382)	(380)

The "look-through" value attributable to fund management is based on the level of after-tax profits expected to be earned in the future over the outstanding term of the covered business in respect of services provided to the Group's life operations. The EEV basis profit and loss account excludes the actual statutory basis profits arising from the provision of fund management services to the Group's life businesses. Instead the EEV profit and loss account records the experience profit or loss compared to the assumed profitability, the return on the in-force value arising from the unwind at the relevant risk discount rate and the effect on the in-force value of changes to economic assumptions. Furthermore fund management service profits are also taken into account in valuing new business contribution.

NU Life Services Ltd (NULS) is the main provider of administration services to the UK Life business. NULS incurs substantially all of the UK Life business' operating expenditure, comprising acquisition, maintenance and project costs. Costs are recharged to the UK Life companies (the product companies) on the basis of pre-determined Management Services Agreement (MSA) which was negotiated in 1998 and will be reviewed in 2008. In overview under the terms of the MSA NULS recharges the product companies as follows:

- all acquisitions related expenses;
- maintenance expenses on the basis of contractual allowances by product type;
- project costs incurred by NULS on behalf of and for the benefit of the product companies in areas of product development, expansion of distribution capability, compliance with new regulation etc.

Under the Achieved Profits basis of reporting, the embedded value of the product companies was calculated by reference to the allowances under the MSA and not by reference to the underlying expenses in NULS. The result of NULS was included on a statutory basis and broadly comprised the difference between costs incurred and costs recharged to the product companies. The reported pre-tax profitability of NULS in recent reporting periods on an MSSB basis was as follows:

	6 months 2004 £m	Full year 2003 £m
Norwich Union Life Services	(15)	(54)

In overview, the reported losses reflected, in part, the fact that NULS has been incurring maintenance expenses overruns since 2002. In addition, significant project expenditure has been incurred on productivity and cost saving initiatives including branch closures, transformation and outsourcing projects, which was not fully recharged and, consequently, was reported as losses in NULS.

The EEV principles "look-through" the contractual terms of the MSA to the underlying expenses of NULS. Accordingly the actual maintenance expenses and a "normal" annual level of project expense allowances have been applied to the product companies, reducing the overall embedded value of the UK Life operations. Under EEV, any further one-off project expenditure is reported as experience losses when incurred.

Furthermore, the adoption of the EEV principles and the inclusion of NULS in the calculations have resulted in the recognition within EEV of the future funding obligations to the UK pension scheme in relation to both future service costs and pension deficits. The overall impact of adopting the EEV principles on UK Life business valuation is as follows:

	30 June 2004 £m	**31 December 2003 £m**	**31 December 2002 £m**
Impact of:			
Increasing maintenance and normal project allowances	(176)	(182)	(183)
Increase in future service pension scheme contribution rate from 11% to 25%	(121)	(117)	(108)
	(297)	(299)	(291)
Pension scheme deficit funding	(132)	(137)	(128)
	(429)	(436)	(419)

Previously under both Achieved Profits basis and Modified Statutory basis reporting pension costs were accounted in NULS in accordance with SSAP 24. This resulted in a pension cost charge to the statutory result of NULS of 11% of pensionable salaries for the six months ended 30 June 2004 (2003: 11%). The funding rate for the annual pension cost was increased to 25% of pensionable salaries with effect from 1 January 2003.

In accordance with SSAP24, only 11% of pensionable salaries was charged to the profit and loss account with the remaining 14% treated as prepayment. Under the EEV methodology, allowance has been made for the entire contribution reducing the embedded value of UK Life and related business at 30 June 2004 by £121 million (31 December 2003: £117 million).

In addition, pension deficit funding equivalent in 2004 to a further 13% of pensionable salaries commenced on 1 January 2004. The NULS share of the total UK pension scheme deficit is approximately 42% and this liability is fully provided for in the UK embedded value. In effect, under the EEV methodology the element of the pension fund deficit which relates to the UK life and other related businesses is now incorporated within shareholders' funds at an amount equivalent to the post-tax contributions discounted using the UK Life business risk discount rate. This is equal to £132 million at 30 June 2004 (2003: £137 million), which differs from the FRS17 basis of evaluating pension deficits.

In quantifying the impact on the embedded value for the UK covered business, the shareholders have been assumed to incur all of the additional contributions except for an amount equivalent to approximately 2% of pensionable salaries which has been attributed to the with-profits funds. This reflects the contractual nature of the current MSA which prevents shareholders from recharging both the increase in future service costs from 11% to 25% of pensionable salaries and the cost of funding the deficit to the UK with profit funds.

Under the MSA, NULS can renegotiate the terms relating to the recharging of the costs to the UK with profit funds in 2008, subject to regulatory approval. In evaluating the impact on EEV, Aviva has not sought to pre-empt the outcome of this renegotiation. Any changes to the recharges in respect of the pension costs and the pension deficit to the with-profits funds will be reported as profits or losses in the period agreement is obtained.

The following table sets out the elements of FRS17 basis deficit excluded from the restated shareholders' funds reported on page 11 of this announcement.

	30 June 2004 £m	**31 December 2003 £m**
FRS 17 pension scheme deficit post tax	(521)	(583)
Element relating to UK life covered business	206	211
Element relating to non-life business	(315)	(372)
Deduct: SSAP24 prepayment	(276)	(251)
Deduction required from restated shareholders' funds to incorporate pension deficit in full as a liability	(591)	(623)

The element of the FRS 17 pension scheme deficit relating to covered business in Ireland and the Netherlands has not been adjusted for in the table above, because the funding arrangements in these territories have not changed.

4. Return on capital employed

	6 months 2004			Full year 2003
	Normalised after-tax return £m	Opening equity capital £m	Return on capital (annualised) %	Return on capital %
Long-term savings	555	11,969	9.5%	10.4%
General insurance and health	419	4,481	19.6%	16.4%
Other business	12	725	3.3%	(0.7%)
Corporate	(23)	2,934	(1.6%)	(1.5%)
	963	20,109	9.8%	9.7%
Borrowings	(162)	(8,404)	3.9%	4.3%
	801	11,705	14.2%	13.4%
Minority interests	(73)	(953)	15.9%	17.9%
Preference capital	(9)	(200)	8.5%	8.5%
Equity shareholders' funds	719	10,552	14.1%	13.1%

5. Sensitivity analysis – Group shareholders' funds

The sensitivity of the Group's shareholders' funds at 31 December 2003 to a 10% fall in global equity markets or a rise of 1% in global interest rates is as follows:

	31 December 2003 £bn	Equities down 10% £bn	Interest rates up 1% £bn
Long-term savings [1]	12.0	11.3	11.8
General insurance and other	8.1	7.9	7.8
Borrowings [2]	(8.4)	(8.4)	(8.4)
Shareholders' funds	**11.7**	**10.8**	**11.2**

(1) Assumes EEV assumptions adjusted to reflect revised bond yields.
(2) Comprising internal, external and subordinated debt.

These sensitivities assume a full tax charge/credit on market value appreciation/falls.

6. Segmental analysis of the components of life EEV operating return

6 months to 30 June 2004 (£m)	UK	France	Ireland	Italy	Netherlands	Poland	Spain	Other Europe	International	Total
New business contribution (after the effect of required capital)	106	27	11	14	25	4	55	(2)	11	251
Profit from existing business										
- expected return	200	53	14	15	71	21	21	10	12	417
- experience variances:										
Exceptional expenses	(32)	(1)	-	-	(10)	-	-	(1)	(10)	(54)
Mortality/Morbidity	17	7	1	-	3	3	1	-	1	33
Lapses	(14)	2	(8)	-	-	-	(1)	(1)	2	(20)
Other	10	(6)	1	1	6	3	1	5	-	21
	(19)	2	(6)	1	(1)	6	1	3	(7)	(20)
- operating assumption changes:										
Maintenance expenses	-	-	-	-	-	-	-	-	1	1
Mortality/Morbidity	-	-	-	-	-	-	-	-	-	-
Lapses	-	-	(9)	-	-	-	-	-	-	(9)
Other	7	(1)	(1)	-	3	-	-	-	-	8
	7	(1)	(10)	-	3	-	-	-	1	-
Expected return on shareholders' net worth	51	31	7	6	34	4	4	3	11	151
Life EEV operating return before tax	**345**	**112**	**16**	**36**	**132**	**35**	**81**	**14**	**28**	**799**

Full Year to 31 December 2003 (£m)	UK	France	Ireland	Italy	Netherlands	Poland	Spain	Other Europe	International	Total
New business contribution (after the effect of required capital)	212	39	26	27	29	3	122	(6)	22	474
Profit from existing business										
- expected return	335	104	29	27	146	51	32	17	20	761
- experience variances:										
Exceptional expenses	(63)	(12)	-	(1)	(35)	-	(4)	1	(2)	(116)
Mortality/Morbidity	22	14	3	3	(3)	7	2	2	4	54
Lapses	(29)	(1)	(22)	(2)	(11)	5	(3)	2	3	(58)
Other	29	55	8	7	(11)	8	5	(12)	-	89
	(41)	56	(11)	7	(60)	20	-	(7)	5	(31)
- operating assumption changes:										
Maintenance expenses	7	(21)	2	-	1	51	(9)	4	1	36
Mortality/Morbidity	22	-	10	-	2	(20)	13	1	(1)	27
Lapses	(46)	-	(10)	(4)	(2)	(3)	1	-	(3)	(67)
Other	18	(6)	-	1	27	(13)	(1)	-	(3)	23
	1	(27)	2	(3)	28	15	4	5	(6)	19
Expected return on shareholders' net worth	90	56	11	12	55	10	7	9	23	273
Life EEV operating return before tax	**597**	**228**	**57**	**70**	**198**	**99**	**165**	**18**	**64**	**1,496**

Statistical supplement:
First time adoption

Financial impact of adopting EEV methodology on 2003 achieved profits basis comparatives

The Group is replacing the Achieved Profits basis with the EEV basis of reporting as its main measure of performance for life and related businesses. The basis of preparation and methodology adopted in compiling restated Group results and balance sheet for 2003 and the six months to 30 June 2004 is given on pages 14 to 16 of this announcement. A bridging analysis of embedded value, operating return and new business contribution on the Achieved Profits and EEV bases is shown below.

Reconciliation of embedded value on the achieved profits basis to the EEV basis

	30 June 2004 £m	31 December 2003 £m	31 December 2002 £m
Achieved profits basis	11,941	12,155	10,148
Impact of changes in economic assumptions	431	531	497
Impact of changes in the cost of required capital	(319)	(308)	(274)
Time value of options and guarantees	(222)	(232)	(204)
Impact of changes in expenses (including service and holding companies)	(371)	(382)	(380)
Other changes	(15)	(13)	(3)
Impact of methodology changes	**(496)**	**(404)**	**(364)**
	11,445	**11,751**	**9,784**
Impact of reclassifying NUER into life segment	28	-	1
European embedded value basis	**11,473**	**11,751**	**9,785**

Reconciliation of total shareholders funds on the achieved profits basis to the EEV basis

	30 June 2004 £m	31 December 2003 £m	31 December 2002 £m
Shareholders' funds (under achieved profits basis)	11,054	11,165	9,668
Impact of changes in embedded value	(496)	(404)	(364)
Impact of changes in minority interests	(14)	(9)	-
Shareholders' funds (under European embedded value basis)	**10,544**	**10,752**	**9,304**

Reconciliation of operating return on the achieved profits basis to the EEV basis

	6 months 2004 £m	Full year 2003 £m
Achieved profits basis	800	1,555
Impact of changes in economic assumptions	14	15
Impact of changes in the cost of required capital	(6)	(24)
Time value of options and guarantees	(11)	(12)
Impact of changes in expenses (including service and holding companies)	(14)	(57)
Other changes	16	19
European embedded value basis	**799**	**1,496**

Reconciliation of new business contribution pre cost of capital on the achieved profits basis to the EEV basis

	6 months 2004 £m	Full year 2003 £m
Achieved profits basis	324	621
Impact of changes in economic assumptions	27	35
Impact of changes in the cost of required capital	-	-
Time value of options and guarantees	(10)	(19)
Impact of changes in expenses (including service and holding companies)	(4)	(12)
Other changes	1	21
European embedded value basis	**338**	**646**

Reconciliation of new business contribution post cost of capital on the achieved profits basis to the EEV basis

	6 months 2004 £m	Full year 2003 £m
Achieved profits basis	246	472
Impact of changes in economic assumptions	37	55
Impact of changes in the cost of required capital	(20)	(44)
Time value of options and guarantees	(10)	(19)
Impact of changes in expenses (including service and holding companies)	(4)	(12)
Other changes	2	22
European embedded value basis	**251**	**474**

The results shown under “Impact of changes in the cost of required capital” above do not equal the total difference in cost of capital under the Achieved Profits and EEV bases. This is because the cost of capital figures above exclude the impact of other economic assumption changes, which are included in the line “Impact of changes in economic assumptions”.

Reconciliation of segmental analysis of embedded value – achieved profits basis to EEV basis

Embedded value 30 June 2004 Continuing operations	Achieved profits basis £m	Impact of changes in economic assumptions £m	Impact of changes in the cost of required capital £m	Time value of options and guarantees £m	Impact of changes in expenses (inc service & holding companies) £m	Other changes £m	EEV basis £m
Life and related businesses							
United Kingdom	5,513	59	(132)	(35)	(378)	9	5,036
France	1,500	186	(29)	(66)	27	2	1,620
Ireland	536	30	(6)	(6)	6	(5)	555
Italy	428	6	(5)	(11)	-	9	427
Netherlands (including Belgium and Luxembourg)	2,353	49	(94)	(72)	-	(2)	2,234
Poland	347	65	(9)	(4)	5	(2)	402
Spain	478	19	(6)	(10)	(5)	(4)	472
Other Europe	204	7	(11)	(10)	-	(1)	189
International	582	10	(27)	(8)	(26)	7	538
	11,941	**431**	**(319)**	**(222)**	**(371)**	**13**	**11,473**

Embedded value 31 December 2003 Continuing operations	Achieved profits basis £m	Impact of changes in economic assumptions £m	Impact of changes in the cost of required capital £m	Time value of options and guarantees £m	Impact of changes in expenses (inc service & holding companies) £m	Other changes £m	EEV basis £m
Life and related businesses							
United Kingdom	5,673	75	(121)	(36)	(388)	(3)	5,200
France	1,449	190	(30)	(71)	27	(6)	1,559
Ireland	554	35	(6)	(6)	6	(6)	577
Italy	442	5	(5)	(10)	-	3	435
Netherlands (including Belgium and Luxembourg)	2,398	125	(96)	(76)	-	3	2,354
Poland	396	71	(9)	(4)	3	(3)	454
Spain	455	17	(5)	(10)	(6)	(5)	446
Other Europe	200	5	(11)	(10)	-	-	184
International	588	8	(25)	(9)	(24)	4	542
	12,155	**531**	**(308)**	**(232)**	**(382)**	**(13)**	**11,751**

Embedded value 31 December 2002 Continuing operations	Achieved profits basis £m	Impact of changes in economic assumptions £m	Impact of changes in the cost of required capital £m	Time value of options and guarantees £m	Impact of changes in expenses (inc service & holding companies) £m	Other changes £m	EEV basis £m
Life and related businesses							
United Kingdom	5,012	97	(111)	(26)	(372)	4	4,604
France	1,220	171	(26)	(58)	22	(3)	1,326
Ireland	472	27	(5)	(3)	6	(4)	493
Italy	349	-	(4)	(11)	-	-	334
Netherlands (including Belgium and Luxembourg)	1,805	96	(77)	(70)	-	1	1,755
Poland	353	61	(13)	(3)	2	(2)	398
Spain	350	10	(3)	(9)	(8)	(1)	339
Other Europe	177	4	(8)	(10)	-	1	164
International	410	31	(27)	(14)	(30)	2	372
	10,148	**497**	**(274)**	**(204)**	**(380)**	**(2)**	**9,785**

Reconciliation of segmental analysis of Group operating return – achieved profits basis to EEV basis

Group operating return 6 months 2004 Continuing operations	Achieved profits basis £m	Impact of changes in economic assumptions £m	Impact of changes in the cost of required capital £m	Time value of options and guarantees £m	Impact of changes in expenses (inc service & holding companies) £m	Other changes[1] £m	EEV basis £m
Life and related businesses							
United Kingdom	356	-	(2)	(2)	(20)	13	345
France	114	10	(3)	(14)	5	-	112
Ireland	18	(1)	(1)	-	1	(1)	16
Italy	34	1	-	1	-	-	36
Netherlands (including Belgium and Luxembourg)	129	1	2	1	(3)	2	132
Poland	33	-	-	-	1	1	35
Spain	78	6	(2)	(1)	2	(2)	81
Other Europe	7	2	-	4	-	1	14
International	31	(5)	-	-	-	2	28
	800	**14**	**(6)**	**(11)**	**(14)**	**16**	**799**
Health							
United Kingdom	3	-	-	-	-	-	3
France	2	-	-	-	-	-	2
Netherlands	28	-	-	-	-	-	28
	33	**-**	**-**	**-**	**-**	**-**	**33**
Fund Management							
United Kingdom	3	-	-	-	(3)	-	-
France	8	-	-	-	(3)	-	5
Netherlands	-	-	-	-	-	-	-
Other Europe	3	-	-	-	(1)	-	2
Australia	3	-	-	-	-	-	3
	17	**-**	**-**	**-**	**(7)**	**-**	**10**
General insurance							
United Kingdom	408	-	-	-	-	-	408
France	13	-	-	-	-	-	13
Ireland	68	-	-	-	-	-	68
Netherlands	23	-	-	-	-	-	23
Other Europe	18	-	-	-	-	-	18
Canada	59	-	-	-	-	-	59
Other	24	-	-	-	-	-	24
	613	**-**	**-**	**-**	**-**	**-**	**613**
Non-insurance operations	(15)	-	-	-	16	7	8
Corporate costs	(94)	-	-	-	-	-	(94)
Unallocated interest charges							
– external	(124)	-	-	-	-	-	(124)
– intra-group	(100)	-	-	-	-	-	(100)
Group operating return before tax	**1,130**	**14**	**(6)**	**(11)**	**(5)**	**23**	**1,145**

(1) United Kingdom includes an addition of a profit of £21 million under life and related businesses and removal of a loss of £7 million under non-insurance operations in respect of NUER.

Reconciliation of segmental analysis of Group operating return – achieved profits basis to EEV basis

Group operating return Full year 2003 Continuing operations	Achieved profits basis £m	Impact of changes in economic assumptions £m	Impact of changes in the cost of required capital £m	Time value of options and guarantees £m	Impact of changes in expenses (inc service & holding companies) £m	Other changes[1] £m	EEV basis £m
Life and related businesses							
United Kingdom	659	-	(8)	(2)	(72)	20	597
France	220	17	(6)	(12)	6	3	228
Ireland	65	-	-	(9)	1	-	57
Italy	70	-	-	2	-	(2)	70
Netherlands (including Belgium and Luxembourg)	189	17	1	1	(5)	(5)	198
Poland	104	(6)	(1)	-	2	-	99
Spain	158	9	(2)	(2)	3	(1)	165
Other Europe	9	(2)	(3)	11	-	3	18
International	81	(20)	(5)	(1)	8	1	64
	1,555	**15**	**(24)**	**(12)**	**(57)**	**19**	**1,496**
Health							
United Kingdom	13	-	-	-	-	-	13
France	9	-	-	-	-	-	9
Netherlands	39	-	-	-	-	-	39
	61	**-**	**-**	**-**	**-**	**-**	**61**
Fund Management							
United Kingdom	(6)	-	-	-	(5)	-	(11)
France	13	-	-	-	(8)	-	5
Netherlands	-	-	-	-	(1)	-	(1)
Other Europe	3	-	-	-	-	-	3
Australia	(1)	-	-	-	-	-	(1)
International	1	-	-	-	-	-	1
	10	**-**	**-**	**-**	**(14)**	**-**	**(4)**
General insurance							
United Kingdom	676	-	-	-	-	-	676
France	35	-	-	-	-	-	35
Ireland	91	-	-	-	-	-	91
Netherlands	35	-	-	-	-	-	35
Other Europe	32	-	-	-	-	-	32
Canada	12	-	-	-	-	-	12
Other	30	-	-	-	-	-	30
	911	**-**	**-**	**-**	**-**	**-**	**911**
Non-insurance operations	(64)	-	-	-	56	16	8
Corporate costs	(160)	-	-	-	-	-	(160)
Unallocated interest charges							
– external	(210)	-	-	-	-	-	(210)
– intra-group	(196)	-	-	-	-	-	(196)
Group operating return before tax	**1,907**	**15**	**(24)**	**(12)**	**(15)**	**35**	**1,906**

(1) United Kingdom includes an addition of a profit of £31 million under life and related businesses and removal of a loss of £16 million under non-insurance operations in respect of NUER.

Reconciliation of segmental analysis of new business contribution before the effect of required capital – achieved profits basis to EEV basis

New business contribution 6 months 2004 Continuing operations	Achieved profits basis £m	Impact of changes in economic assumptions £m	Time value of options and guarantees £m	Impact of changes in expenses (inc service & holding companies) £m	Other changes[1] £m	EEV basis £m
Life and related businesses						
United Kingdom	126	-	-	(2)	3	127
France	44	6	(7)	4	(1)	46
Ireland	10	2	-	1	-	13
Italy	21	1	-	-	-	22
Netherlands (including Belgium and Luxembourg)	38	6	(2)	(2)	-	40
Poland	3	2	-	-	-	5
Spain	66	3	(1)	-	-	68
Other Europe	(1)	2	-	-	-	1
International	17	5	-	(5)	(1)	16
	324	**27**	**(10)**	**(4)**	**1**	**338**

(1) United Kingdom includes £5 million in respect of NUER.

New business contribution Full year 2003 Continuing operations	Achieved profits basis £m	Impact of changes in economic assumptions £m	Time value of options and guarantees £m	Impact of changes in expenses (inc service & holding companies) £m	Other changes[1] £m	EEV basis £m
Life and related businesses						
United Kingdom	241	-	-	(8)	17	250
France	70	10	(12)	4	-	72
Ireland	23	5	-	1	(1)	28
Italy	45	(1)	(1)	-	2	45
Netherlands (including Belgium and Luxembourg)	62	11	(4)	(5)	5	69
Poland	3	2	-	-	-	5
Spain	134	5	(1)	1	2	141
Other Europe	(3)	2	-	-	-	(1)
International	46	1	(1)	(5)	(4)	37
	621	**35**	**(19)**	**(12)**	**21**	**646**

(1) United Kingdom includes £19 million in respect of NUER.

Statistical supplement:
Life new business information

Life new business premiums

Under the EEV principles, new business margins are required to be disclosed as a percentage of the present value of new business premiums (PVNBP). The present value of new business premiums is derived from the single premiums and regular premiums of the products sold during the financial period and is expressed at the point of sale.

The PVNBP calculation is equal to total single premium sales received in the year plus the discounted value of regular premiums expected to be received over the term of the new contracts. The premium volumes and projection assumptions used to calculate the present value of regular premiums for each product are the same as those used to calculate new business contribution, so the components of the new business margin are on a consistent basis.

The discounted value of regular premiums is also expressed as annualised regular premiums multiplied by a Weighted Average Capitalisation Factor (WACF). The WACF will vary over time depending on the mix of new products sold, the average outstanding term of the new contracts and the projection assumptions. The table below sets out the factors required to derive the present value of regular premiums by business units, and combined with single premium sales derives the present value of future new business premiums.

	6 months ended 30 June 2004				
	Regular premiums £m	Weighted average capitalisation factor	Present value of regular premiums £m	Single premiums[1] £m	Present value of new business premiums £m
United Kingdom					
Individual pensions	136	5.0	678	800	1,478
Group pensions	49	5.2	255	303	558
Annuities	-	-	-	568	568
Bonds	-	-	-	964	964
Protection	88	4.9	428	303	731
Total life and pensions	**273**	**5.0**	**1,361**	**2,938**	**4,299**
France					
AFER (excluding unit-linked)	-	-	-	700	700
Other savings	16	5.5	88	462	550
Protection business	11	6.0	66	21	87
Total life and pensions	**27**	**5.7**	**154**	**1,183**	**1,337**
Ireland					
Life and savings	9	5.7	51	20	71
Pensions	26	5.0	131	65	196
Total life and pensions	**35**	**5.2**	**182**	**85**	**267**
Italy					
Life and savings	20	5.9	117	694	811
Netherlands (including Belgium and Luxembourg					
Life	41	6.7	275	221	496
Pensions	24	6.8	164	321	485
Total life and pensions	**65**	**6.8**	**439**	**542**	**981**
Poland					
Life and savings	7	4.6	32	20	52
Pensions	8	7.0	56	13	69
Total life and pensions	**15**	**5.9**	**88**	**33**	**121**
Spain					
Life and savings	27	6.1	165	626	791
Pensions	15	5.5	82	249	331
Total life and pensions	**42**	**5.9**	**247**	**875**	**1,122**
Other Europe					
Life and pensions	41	5.4	221	167	388
International					
Life and pensions	51	4.0	202	225	427
Total	**569**	**5.3**	**3,011**	**6,742**	**9,753**

(1) United Kingdom includes single premiums of £197 million in respect of NUER under Protection business.

	Full year ended 31 December 2003				
	Regular premiums £m	Weighted average capitalisation factor	Present value of regular premiums £m	Single premiums[1] £m	Present value of new business premiums £m
United Kingdom					
Individual pensions	248	5.3	1,324	1,479	2,803
Group pensions	102	5.4	550	727	1,277
Annuities	-	-	-	1,091	1,091
Bonds	-	-	-	1,866	1,866
Protection	184	4.4	806	673	1,479
Total life and pensions	**534**	**5.0**	**2,680**	**5,836**	**8,516**
France					
AFER (excluding unit-linked)	-	-	-	1,157	1,157
Other savings	27	5.7	154	752	906
Protection business	19	6.3	120	41	161
Total life and pensions	**46**	**6.0**	**274**	**1,950**	**2,224**
Ireland					
Life and savings	16	5.2	83	51	134
Pensions	46	5.6	258	137	395
Total life and pensions	**62**	**5.5**	**341**	**188**	**529**
Italy					
Life and savings	54	6.5	353	1,399	1,752
Netherlands (including Belgium & Luxembourg)					
Life	63	6.9	432	506	938
Pensions	76	7.1	539	344	883
Total life and pensions	**139**	**7.0**	**971**	**850**	**1,821**
Poland					
Life and savings	17	4.6	78	24	102
Pensions	15	7.7	116	8	124
Total life and pensions	**32**	**6.1**	**194**	**32**	**226**
Spain					
Life and savings	55	6.0	329	1,022	1,351
Pensions	56	5.0	282	331	613
Total life and pensions	**111**	**5.5**	**611**	**1,353**	**1,964**
Other Europe					
Life and pensions	73	4.2	307	280	587
International					
Life and pensions	113	4.0	450	740	1,190
Total	**1,164**	**5.3**	**6,181**	**12,628**	**18,809**

(1) United Kingdom includes single premiums of £500 million in respect of NUER under Protection business.

EEV basis – new business contribution before and after the effect of required capital

3 months to 31 March 2004	Annual premium equivalent[1] £m	Present value of new business premiums £m	New business contribution before the effect of required capital £m	New business contribution after the effect of required capital £m
United Kingdom	275	2,123	61	51
France	77	717	24	13
Ireland	22	137	7	6
Italy	49	443	12	8
Netherlands (including Belgium and Luxembourg)	63	505	20	12
Poland	13	79	3	2
Spain	57	466	31	27
Other Europe	26	139	-	-
Continental Europe	307	2,486	97	68
International	34	186	8	5
Total	**616**	**4,795**	**166**	**124**
6 months to 30 June 2004	**£m**	**£m**	**£m**	**£m**
United Kingdom	567	4,299	127	106
France	145	1,337	46	27
Ireland	44	267	13	11
Italy	89	811	22	14
Netherlands (including Belgium and Luxembourg)	119	981	40	25
Poland	18	121	5	4
Spain	130	1,122	68	55
Other Europe	58	388	1	(2)
Continental Europe	603	5,027	195	134
International	74	427	16	11
Total	**1,244**	**9,753**	**338**	**251**
9 months to 30 September 2004	**£m**	**£m**	**£m**	**£m**
United Kingdom	882	6,774	198	162
France	209	1,937	64	36
Ireland	63	392	18	15
Italy	133	1,206	35	23
Netherlands (including Belgium and Luxembourg)	182	1,449	57	35
Poland	27	181	6	7
Spain	182	1,539	97	79
Other Europe	81	482	1	1
Continental Europe	877	7,186	278	196
International	121	737	29	22
Total	**1,880**	**14,697**	**505**	**380**

(1) APE has been restated to include NUER volumes

3 months to 31 March 2003	Annual premium equivalent[1] £m	Present value of new business premiums £m	New business contribution before the effect of required capital £m	New business contribution after the effect of required capital £m
United Kingdom	276	2,124	60	51
France	61	569	19	10
Ireland	21	143	8	7
Italy	61	530	13	7
Netherlands (including Belgium and Luxembourg)	45	378	8	1
Poland	14	87	2	1
Spain	69	557	30	24
Other Europe	23	117	(1)	0
Continental Europe	294	2,381	79	50
International	44	298	9	5
Total	**614**	**4,803**	**148**	**106**
6 months to 30 June 2003	**£m**	**£m**	**£m**	**£m**
United Kingdom	556	4,271	121	102
France	120	1,107	36	19
Ireland	39	250	14	13
Italy	117	1,044	27	15
Netherlands (including Belgium and Luxembourg)	102	853	23	1
Poland	20	126	3	2
Spain	139	1,074	72	63
Other Europe	44	212	(1)	(2)
Continental Europe	581	4,666	174	111
International	100	655	19	11
Total	**1,237**	**9,592**	**314**	**224**
9 months to 30 September 2003	**£m**	**£m**	**£m**	**£m**
United Kingdom	839	6,455	186	159
France	177	1,639	52	28
Ireland	55	360	20	18
Italy	148	1,322	35	20
Netherlands (including Belgium and Luxembourg)	146	1,206	36	8
Poland	27	172	4	2
Spain	174	1,391	97	85
Other Europe	68	349	(3)	(6)
Continental Europe	795	6,439	241	155
International	148	922	28	16
Total	**1,782**	**13,816**	**455**	**330**

(1) APE has been restated to include NUER volumes

Full year 2003	Annual premium equivalent[1] £m	Present value of new business premiums £m	New business contribution before the effect of required capital £m	New business contribution after the effect of required capital £m
United Kingdom	1,118	8,516	250	212
France	241	2,224	72	39
Ireland	81	529	28	26
Italy	194	1,752	45	27
Netherlands (including Belgium and Luxembourg)	224	1,821	69	29
Poland	35	226	5	3
Spain	246	1,964	141	122
Other Europe	101	587	(1)	(6)
Continental Europe	1,122	9,103	359	240
International	187	1,190	37	22
Total	**2,427**	**18,809**	**646**	**474**

(1) APE has been restated to include NUER volumes

Post tax internal rate of return on life and pensions new business

The internal rate of return (IRR) on life and pensions new business for the Group was 11.8% for the six months to 30 June 2004 (31 December 2003: 12.4%).

The internal rate of return is equivalent to the discount rate at which the present value of the post tax cash flows expected to be earned over the life time of the business written, including allowance for the time value of options and guarantees, is equal to the total invested capital to support the writing of the business. The capital included in the calculation of the IRR is the initial capital required to pay acquisition costs and set up statutory reserves in excess of premiums received, plus required capital at the same level as for the calculation of new business contribution post cost of capital.

	6 months to 30 June 2004			
	Internal rate of return %	**Initial capital £m**	**Required capital £m**	**Total invested capital £m**
United Kingdom	11%	214	78	292
Continental Europe				
France	11%	10	40	50
Ireland	11%	22	9	31
Italy	12%	9	15	24
Netherlands (including Belgium and Luxembourg)	10%	24	19	43
Poland	18%	4	1	5
Spain	23%	8	33	41
Other Europe	8%	10	7	17
International	10%	8	12	20
	12%	**309**	**214**	**523**

	Full Year to 31 December 2003			
	Internal rate of return %	**Initial capital £m**	**Required capital £m**	**Total invested capital £m**
United Kingdom	12%	448	171	619
Continental Europe				
France	10%	24	73	97
Ireland	15%	29	16	45
Italy	11%	22	31	53
Netherlands (including Belgium and Luxembourg)	9%	51	39	90
Poland	13%	10	2	12
Spain	25%	22	55	77
Other Europe	9%	17	14	31
International	10%	32	35	67
	12%	**655**	**436**	**1,091**

The total initial capital for life and pensions new business for the 6 months to 30 June 2004 of £309 million (2003: £655 million) shown above is expressed at the point of sale. Hence it is higher than the impact of writing that new business on net worth of £280 million (2003: £581 million) shown on page 21, because the latter amount includes expected profits from the point of sale to the end of the reporting period, partly offset by the expected return on the initial capital.

Auditors' reports

Half Year 2004

Independent review report to the directors of Aviva plc on the restated financial information
We have been instructed by the Company to review the restated financial information for the six months ended 30 June 2004 set out on pages 10 to 41 and we have read the other information contained in the Analyst Pack and considered whether it contains any apparent misstatements or material inconsistencies with the above restated financial information. The restated financial information on pages 10 to 41 has been restated from the achieved profits basis to the European Embedded Value basis.

This report is made solely to the company in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities
The interim restated financial information is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim restated financial information 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 Aviva management and applying analytical procedures to the 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 restated financial information for the six months ended 30 June 2004.

Review conclusion
On the basis of our review we are not aware of any material modifications that should be made to the restated financial information as presented for the six months ended 30 June 2004.

Ernst & Young LLP
London
12 January 2005

Year End 2003

Audit report - Independent auditors' report to the directors of Aviva plc on the restated financial information
We have audited the restated financial information on pages 10 to 41 in respect of the year ended 31 December 2003, which has been restated from the achieved profits basis to the European Embedded Value basis and comprises a European Embedded Value basis Summarised consolidated profit and loss account, Consolidated statement of total recognised gains and losses, Reconciliation of movements in consolidated shareholders' funds, Summarised consolidated balance sheet and the related notes and analyses.

The restated financial information has been prepared in accordance with the CFO Forum Principles as described on, and using, the methodology and assumptions set out on pages 14 to 16 and 24 to 26.

This report is made solely to the Company's directors, as a body. Our audit work has been undertaken so that we might state to the Company's directors those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's directors as a body, for our audit work in respect of this report, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
The directors are responsible for preparing the restated financial information on a European Embedded Value basis.

Our responsibilities, as independent auditors, in relation to the restated financial information are established in the United Kingdom by the Auditing Practices Board and our profession's ethical guidance. We report to you our opinion as to whether the restated financial information has been properly prepared in accordance with the European Embedded Value basis. We also report to you if we have not received all the information and explanations we require for our audit of the supplementary information.

We also read the other information included in the Analyst Pack and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the restated financial information. The other information comprises the Adoption of European embedded value (EEV) principles and impact on results, Glossary, and Statistical supplement: Life new business information.

Basis of audit opinion
In respect of the restated financial information for the year ended 31 December 2003, we conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the supplementary information. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the restated financial information, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

Opinion
In our opinion, the restated financial information for the year ended 31 December 2003 has been properly prepared in accordance with the European Embedded Value basis, using the methodology and assumptions set out on pages 14 to 16 and 24 to 26.

Ernst & Young LLP
Registered Auditor
London
12 January 2005

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